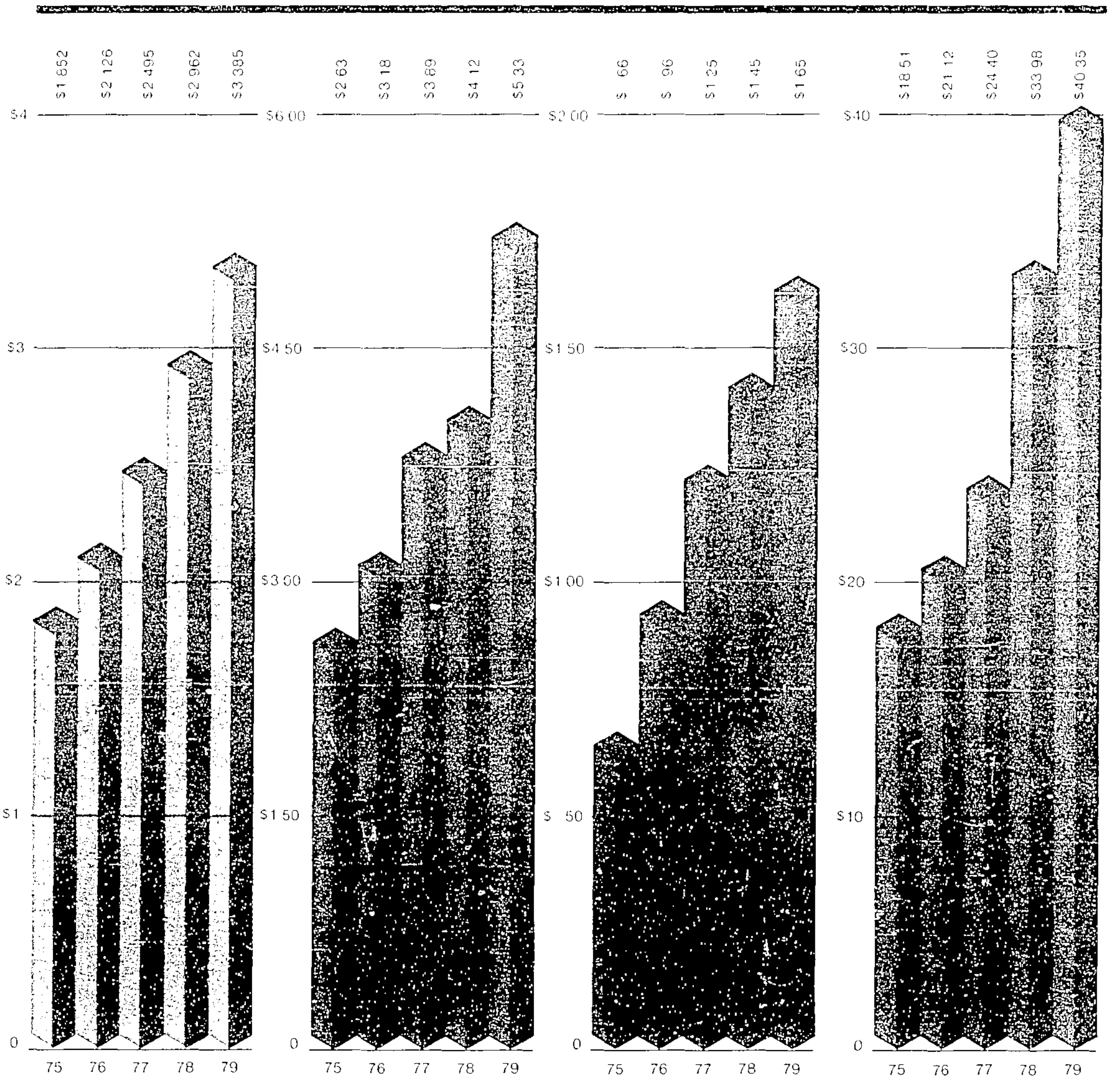
Dayton Hudson Corporation Annual Report -- 1979
America's Corporate Foundation; 1979; ProQuest Historical Annual Reports
pg. 0_1

Revenues
(BILLIONS)

Net Earnings Per Share
(CONTINUING OPERATIONS)

Cash Dividend Per Share

Shareholders' Investment Per Share



Dayton Hudson Corporation

Dayton Hudson Corporation operates its Retail business nationally through low-margin stores, specialty stores and department stores. In addition, it operates a chain of softlines stores through its Mervyn's subsidiary. For a description of Dayton Hudson Retail operating companies and their locations, see pages 34-35.

Cover: Target's low-margin, self-service retail format serves the shopping needs of a diverse customer base.

Contents

Highlights

	1979 52 Weeks Ended February 2, 1980	1978 53 Weeks Ended February 3, 1979	Percent Increase
Continuing Operations:			
Revenues	[illegible]	$2,961.9	14%
Earnings Before Unusual Expenses and Income Taxes	$ [illegible]	$ 218.7	10%
Unusual Expenses	—	$ 19.8	
Income Taxes	$ [illegible]	$ 101.3	
Net Earnings	$ 126.5	$ 97.6	30%
Net Earnings Per Share	$ 5.33	$ 4.12(A)	29%
Cash Dividend Per Share	$ 1.65	$ 1.45	14%
Net Earnings Per Share From Discontinued Real Estate Operations	$ 2.77	$ 7.09	
At Year-End:			
Shares Outstanding	23,742,074	23,651,998	
Number of Shareholders	12,332	12,804	
Shareholders' Investment	$ 962.6	$ 808.4	
Retail Square Feet	25,781,000	24,158,000	
Number of Stores	631	588	

(A) Exclusive of the effect on net income of the unusual expenses noted above, net earnings per share would have been $4.64 (see Note B to Financial Statements).

All dollars in millions except per share amounts.

To Our Shareholders:

Dayton Hudson Corporation completed a very successful year in 1979. We achieved record levels in earnings and revenues from Retail operations and in dividends paid to shareholders.

- Retail net earnings per share rose to $5.33.
- Retail revenues increased 14%, with more than half of the growth coming from stores that have been open for more than one year.
- The quarterly dividend was increased to 45 cents per common share. The total dividend paid in 1979 was $1.65 per share, a 14% gain over the $1.45 paid in 1978.

Consolidated net earnings, which include results from discontinued Real Estate operations, were $8.10 per share.

Fourth Quarter

Revenues from Retail operations in the fourth quarter were up 12% over last year. Retail earnings per share reached $2.73, an increase of 7% over $2.56 in 1978.

Sales were strong throughout the Christmas season. Promotional activity and accompanying markdowns, however, were higher than last year. As a result of markdowns during the quarter, our inventories are in line with our sales forecasts for the spring season.

Inflation was a problem in the fourth quarter, as it was throughout the entire year. The effect of inflation on operating expenses, combined with a lower gross margin percentage, resulted in a slight decline in Retail operating profit. This decline was more than offset, however, by interest income and the lower Federal income tax rate.

Discontinued Real Estate operations contributed earnings of $1.43 per share in the fourth quarter. The results include a loss of 9 cents per share from operations and a gain of $1.52 per share from the sale of shopping center properties.

Real Estate

During 1979 we made additional progress toward completing the disposition of our Real Estate business. We concluded the sales of two wholly owned shopping centers and our joint-venture interests in four other shopping centers.

Net earnings from Real Estate operations were $2.77 per share, reflecting the proceeds from property sales in 1979, as well as an additional gain from the 1978 sale of nine wholly owned shopping centers. Real Estate earnings in 1978 were $7.09 per share. That figure included a gain of $6.88 per share from the sale of the nine centers.

Negotiations are continuing for the sale of our remaining Real Estate assets. These consist primarily of our interests in six shopping centers which are in various stages of development and our shopping center management and development business.

Financial Position

Our financial position remained strong, benefiting both from improved Retail results and from cash received from the sale of shopping center properties. Our debt ratio at year-end, including capital leases and the present value of all operating leases, was 29% of total capitalization, compared with 32% at the end of 1978.

We expect our debt ratio to increase somewhat as we utilize additional outside financing to support our growth over the next several years. Present plans call for an increase in long-term debt sometime during the year.

In April 1980, Standard & Poor's, commenting on Dayton Hudson's performance and financial strength, raised its rating on our long-term debt from A+ to AA.

Capital Investment and Expansion

Retail expansion increased again in 1979. Including capital expenditures and the present value of new capital and operating leases, the total investment in Retail expansion was $247 million, compared with an investment of $192 million in 1978.

Store openings included one department store, nine Mervyn's stores, 13 Target stores and 70 specialty stores. Retail space increased to 25.8 million square feet.

In 1980, the capital investment in Retail expansion is expected to total approximately $310 million. Scheduled to open are five department stores, nine Mervyn's stores, 17 Target stores and approximately 80 specialty stores, increasing Retail space by approximately 3.3 million square feet, a gain of 13%.

Management and Board Changes

Mervin G. Morris retired as Chairman and Chief Executive Officer of Mervyn's in July. Named to succeed him was John F. Kilmartin. Mr. Kilmartin joined Mervyn's in 1966, becoming President and Chief Operating Officer in 1971. Wallace Kalina, formerly Chairman and Chief Executive Officer of The Bon, a Seattle-based department store company, was named Mervyn's President and Chief Operating Officer in January 1980.

Mr. Morris founded Mervyn's in 1949 with a single 2,800-square-foot store and guided the company's growth through its merger with Dayton Hudson. He will continue to serve on the Corporation's Board of Directors.

Kenneth A. Macke, Chairman and Chief Executive Officer of Target, was elected to the Board of Directors in August.

Stephen F. Keating will retire from the Board of Directors at the end of his present term. Mr. Keating, who is also retiring as Vice Chairman of Honeywell Inc., has been a member of the Board since 1967, when Dayton Hudson became a public corporation. His counsel and leadership have been instrumental in the growth and development of Dayton Hudson and are deeply appreciated.

The Future

We expect the economic environment in 1980 to be difficult for retailers and consumers alike. Inflation continues to be a major problem. For retailers, prices have not increased sufficiently to offset rising operating expenses, resulting in a general erosion of retail profit margins. For consumers, discretionary spending levels continue to decline.

We are nevertheless encouraged by first-quarter sales, which continue to show good improvement over last year. Through our contingency planning process we are maintaining a close watch on expense and inventory levels in an effort to offset any softening in sales that might occur. We believe these measures, together with our strategic, financial and management strength, will guide us through this difficult period.

We are very optimistic about the long-term prospects for Dayton Hudson Corporation as we enter the 1980s. Despite the possibility of some continuing economic problems, the new decade should be a period of growth, as rising incomes bring an increase in consumer spending.

We believe our business is well-positioned and right for the times. We are confident that Dayton Hudson Corporation will share fully in the growth of the 1980s.

April 17, 1980

William A. Andres
Chairman of the Board
and Chief Executive Officer

Stephen L. Pistner
President
and Chief Operating Officer

Richard L. Schall
Vice Chairman
and Chief Administrative Officer

Retail Operations

As American business enters the 1980s, it finds itself in an increasingly competitive environment—one that is characterized by rising costs and resulting pressures on profit growth.

These pressures are particularly intense in the extremely competitive business of general merchandise retailing. Today, the competitive differences among quality retailers are narrowing rapidly. As a result, we see increasing similarity in retail stores—a similarity apparent in merchandise, store design and layout, presentation and advertising.

In this competitive environment, the retailers that will survive and prosper must first deal with the present by knowing their customers thoroughly and serving them effectively. Second, they must plan for the future by developing and executing clearly defined strategies to provide for continued growth.

Achieving A Competitive Edge

At Dayton Hudson Corporation, we are meeting these two very important challenges through our ongoing strategic planning process.

This proven planning process enables our operating companies and the Corporation as a whole to integrate a long-range strategic vision of the future—a picture of what we want to be and where we want to go—with the short-term operational plans necessary to carry out that vision.

Strategic planning gives each of our operating companies a clear-cut picture of its business—its strengths and weaknesses, its markets, and its competition.

It also enables our companies to know their customers better—their needs and desires, their purchasing power, and their changing lifestyles and demographic characteristics.

Most important, strategic planning helps our companies to know what their customers expect from the shopping experience, and to anticipate and respond quickly with operational decisions that fulfill those expectations.

Just as we have come to know our customers better, so too have they come to know us. Our customers have a very clear perception of what to expect when they shop at a Dayton Hudson store. They know they will find a well-defined merchandise and service offering built around:

- Value not only in price, but also in every other aspect of the shopping experience.
- Dominant assortments of the most-wanted merchandise.
- Quality in merchandise, store facilities, sales personnel and service.
- Fashion through clear offerings of new and exciting trends in all merchandise categories.

This clear perception by the consumer has given our Retail companies a distinct identity within their markets—a factor that is providing Dayton Hudson with a competitive edge in today's retail environment.

The current positioning and strength of our Retail companies gives us an excellent base upon which to develop our long-range strategic plans.

One very important element in these long-term plans is our five-year Retail expansion program. Over the five-year period 1980-1984, we plan a total investment in Retail expansion of $1.69 billion, including capital expenditures and new lease obligations. Additional working capital requirements for new stores will total approximately $240 million.

Most of the planned investment will go to construction of new stores. A substantial amount of capital will also be used for store remodeling, new data-processing systems and construction of distribution centers.

The Corporation is expected to grow to more than 1,300 stores by the end of 1984, resulting in an annual compound growth rate in Retail square footage of just over 10%.

Our three fastest growing operating companies—Target, Mervyn's and B. Dalton Bookseller—will receive approximately 85% of the planned investment over the five-year period. These companies, each of which is featured in greater detail in the following section, represent national market opportunities as well as a high return on investment. Each has a strong record of past performance and an outstanding management team committed to maintaining and improving that performance.

We are confident that we can successfully execute these aggressive growth plans while continuing to give the retail consumer a shopping experience that features a "wanted difference."

In doing so, we can maintain our commitment to our shareholders by providing them with a high return on investment. Just as important, we can continue to serve effectively the needs of our other constituencies—our customers, our employees and the communities in which we do business.

Providing the customer with a "wanted difference" — the key to Dayton Hudson's distinct retailing identity

Low-Margin Stores

The low-margin group consists of Target and Lechmere, two companies strategically committed to serving a growing consumer segment that today seeks value and quality more than ever before. Both companies operate high-volume, low-expense stores featuring dominant selections of name-brand merchandise.

Revenues from low-margin stores increased 23% to $1,297,418,000 in 1979. Operating profit contribution advanced to $75 million.

Target

At year-end, Target was operating 80 stores in 11 states located principally in the central corridor of the country. Target stores feature a mix of two-thirds hardgoods and one-third softgoods balanced between basic everyday items and fashion merchandise.

Target's annual revenues surpassed $1 billion for the first time in 1979, ending the year 25% ahead of 1978. Earnings growth was also strong, with operating profit increasing 19%.

Lechmere

Lechmere, a quality hardgoods retailer, operates six stores in Massachusetts and New Hampshire. Lechmere stores offer broad, in-depth assortments of the most wanted models and brands at low prices.

Revenues from Lechmere were up 13% for the year. Operating profit contribution totaled only 19% of last year's amount, however, reflecting high fourth-quarter markdowns as well as increased pressures on operating expense and a reduction in initial purchase markup.

Lechmere was especially affected by economic conditions in the final quarter, as inflation forced many consumers to delay purchases of higher-priced hardgoods.

Lechmere's consumer image is built around its core departments—appliances, television and audio components. Supplementing these departments is a group of secondary merchandise categories, including sporting goods, jewelry, luggage, housewares and fine china.

Revenues	1979	1978
Target	$1,120,548,000	$ 898,671,000
Lechmere	176,870,000	156,377,000
Total	$1,297,418,000	$1,055,048,000

Target: Quality and Value, Basics and Fashion

Target continues to benefit from its strategic positioning as economic conditions force consumers to focus even more sharply on value. Target responds to this prevailing consumer focus by providing its customers a total value package that extends beyond merchandise to encompass the entire shopping experience.

Target is, first and foremost, a store offering the basics—the everyday merchandise that customers use and need most. But Target also serves the fashion desires of its customers by spotting the arrival of trends and moving quickly to present them in volume assortments for as long as there is sufficient demand.

In both basics and fashion, Target is committed to offering dominant assortments—the right merchandise, at the right time, in the right quantities—backed by aggressive promotion and clear presentation.

Target is also committed to offering only that merchandise which represents a high degree of quality at a low price—a commitment that has positioned Target at the upper end of the discount store industry. Its merchandise emphasis is on well-known national brands. Those items that carry Target's own label are laboratory tested to ensure they meet strict quality and safety standards.

A good example of Target's approach to product quality is its toy safety testing program which was established in 1974. All toys sold in Target stores must first meet safety and quality standards set by both Target and the U.S Consumer Product Safety Commission. In 1979, Target tested nearly 4,000 toys. Of the total, more than 100 were rejected for not meeting safety standards set by the program.

Target's commitment to quality is backed by an unconditional guarantee on all merchandise—a policy that is the key factor in a comprehensive customer relations program designed to deliver total satisfaction to the customer.

The consumer today demands value not only from quality merchandise, but from all aspects of the shopping experience. Target meets this demand by providing its customers a store environment that is well-organized and convenient to shop.

An important element in this aspect of value is a consideration for the customer's time. Target stores are accessible to the shopper, both in store locations and in shopping convenience in the store itself.

Most Target stores are located in or near major regional shopping centers—an important convenience to the consumer as rising fuel prices create the need for "one-stop" shopping.

Target stores are designed to make the shopper's trip as easy and fast as possible. Departments are logically adjoined and well-planned. The merchandise offering is clear and dominant, emphasizing a consistently high in-stock position on all basic and advertised items. All aspects of Target's self-service format are continually monitored through an ongoing productivity improvement program, so that customers can find what they want and need with greater ease and convenience.

TARGET

LECHMERE

Target stores emphasize fashion values — the latest trends at low prices.

Mervyn's

Mervyn's success in responding to the increasing value orientation of today's consumer was especially evident in 1979. For the second year in a row, Mervyn's led all Dayton Hudson operating companies in revenue growth. Revenues increased 37% to $655,963,000, making it second only to Target in total revenues.

Mervyn's also posted the sharpest earnings gain in 1979, as operating profit increased 54% over last year. Mervyn's was surpassed only by Target in total contribution to corporate operating profiit.

Mervyn's, a California-based softgoods chain, was acquired by Dayton Hudson Corporation through a merger in May 1978. Mervyn's has developed a unique reputation as a specialist in softgoods. Its stores offer a popularly priced balance of nationally branded and private-label merchandise, including clothing and accessories for the entire family, and linens, bedding, draperies and fabrics for the home.

At year-end, Mervyn's operated 60 stores in California, Arizona, New Mexico, Nevada and Oregon. Mervyn's stores are located primarily in rapidly growing middle-income communities. The stores occupy a variety of sites, including free-standing locations, strip developments, community shopping centers and regional malls.

Revenues	1979	1978
Mervyn's	$655,963,000	$479,505,000

Mervyn's has developed a distinct identity in the retail industry—an identity characterized by a clearly perceived merchandising position and a strong value image.

Mervyn's merchandise offering is precise: a broad and in-depth assortment of softgoods apparel, accessories and domestics. In a typical Mervyn's store, for example, a shopper will find on display more than 12,000 pairs of men's pants, 12,000 men's shirts and 6,000 women's slacks in a breadth of styles, colors and sizes, balanced between national brands and Mervyn's own label.

The Softgoods Specialist

As a softgoods specialist, Mervyn's has no counterpart in the retail spectrum. It occupies a unique position between the major mass merchants and the full-line department stores.

Supplementing this distinct merchandising identity is a strong value image that is clearly in keeping with the most important expectations of today's shoppers.

Mervyn's prices its merchandise to appeal to the middle-income family—a vast market that includes most of the economic scale.

Mervyn's customers can expect to find not only low prices, but also high quality goods—an expectation insured by a thorough testing program applied to all direct-import and private-label merchandise.

Mervyn's value image is continually reinforced through its advertising tabloid, a newspaper supplement received every week by more than four million households. The tabloid features promotions in every department in every store. In-depth inventory assures the customer that the merchandise on sale is in stock in the store.

Mervyn's maintains its consistently high in-stock position through a highly efficient distribution process and inventory control system. Both are key elements in Mervyn's central service operation that frees each store to devote all of its time and resources to presenting merchandise and serving customers.

Supporting Mervyn's merchandising effort and its value image is a comprehensive service program aimed at providing customer satisfaction. Mervyn's service program includes many features usually found only in traditional full-line department stores—service counters, charge accounts, gift wrapping, special orders and a liberal return and exchange policy.

MERVYN'S

Customers at Mervyn's Washington Square store in Portland, Oregon, use the sale tabloid to shop for values in every department.

Specialty Stores

The specialty store group is composed of two operating companies—B. Dalton Bookseller and Dayton Hudson Jewelers—that focus their merchandise offerings on specific segments of the consumer market.

Specialty store revenues were $257,699,000 in 1979, a slight increase over last year. This modest gain, however, reflects the exclusion of Team Central, which was sold during the year. If Team's 1978 revenues were excluded from the total results, specialty store revenues for 1979 would have been up 19%.

Operating profit contribution from the group was up 8% over last year.

B. Dalton Bookseller

B. Dalton posted a 20% revenue gain over 1978, while operating profit increased 15%.

B. Dalton employs a "nothing but books" format and a chain store approach to bookselling to serve the diverse reading interests of book buyers. At year-end, B. Dalton was operating 420 stores in 43 states, the District of Columbia and Puerto Rico.

Dayton Hudson Jewelers

Dayton Hudson Jewelers recorded a 14% increase in revenues for 1979. The sales increase, however, was less than the high rate of inflation in jewelry items, particularly in gold and silver. Operating profit contribution declined 35% from last year's total.

Through 50 stores in 9 states and the District of Columbia, Dayton Hudson Jewelers serves the consumer who seeks fine quality gems, fashion jewelry and gifts, as well as china, silver and crystal.

The six regional fine-jewelry companies which form Dayton Hudson Jewelers have long-established reputations for quality and fashion leadership within the primary markets they serve. They are J. E. Caldwell (Philadelphia, Washington, D.C.), J. B. Hudson (Minneapolis), J. Jessop & Sons (San Diego), C. D. Peacock (Chicago), Shreve's (San Francisco) and C. W. Warren (Detroit).

Revenues	1979	1978
B Dalton Bookseller	$209,852,000	$174,397,000
Dayton Hudson Jewelers	47,847,000	42,017,000
Team Central	—	38,592,000
Total	$257,699,000	$255,006,000

B Dalton: America's Bookstore

B. Dalton Bookseller has achieved its position as the country's leading bookstore chain through a strategy of well-planned expansion, aggressive marketing and an emphasis on computer systems as a management tool.

As demographic shifts in income, education and leisure time continue to increase book readership, B. Dalton has undertaken an aggressive expansion program aimed at putting the most books *where the most people are*. Today B Dalton bookstores are located in a wide variety of settings, including regional shopping centers, suburban or campus free-standing sites and the central business districts of major cities

A well-designed group of basic prototypes allows B. Dalton the flexibility to operate profitable stores in markets ranging from Minot, North Dakota (1,200 square feet, 15,000 titles), to New York's Fifth Avenue (25,000 square feet, 100,000 titles).

B. Dalton's primary merchandising objective is simply to offer the customer more books than any other bookstore in the market. Dominant assortments in all categories—more than 30,000 titles in the basic prototype store—assure the book buyer a complete selection of not only the newest titles, but also backlist titles (books which stay in print beyond the initial printing season).

The typical B. Dalton store is merchandised to the fullest, with all stock on display—floor to ceiling, front to back. Bestsellers are prominently displayed in quantity, with new arrivals receiving maximum exposure. All titles are presented by subject or arranged alphabetically by author, so that all books on a particular topic can be easily found in one section.

Although bookselling is not generally thought of as a fashion business, B. Dalton is a trend merchant in much the same manner as a department store. B. Dalton emphasizes trends through highly visible and aggressive merchandise presentation and in-store promotions.

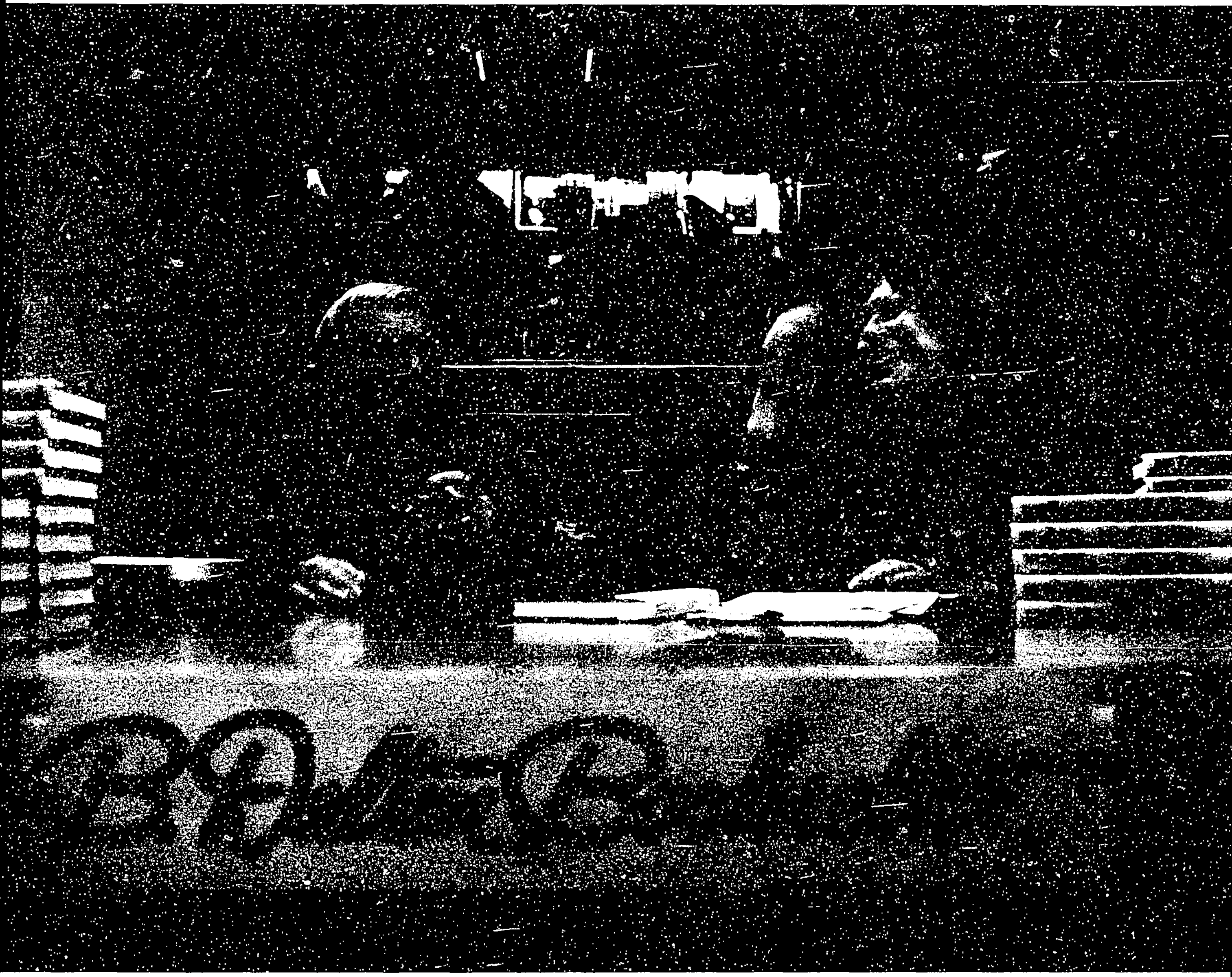
Trends are creatively presented on special theme tables, while continually changing rack displays emphasize a feeling of newness. Author promotions bring well-known writers and personalities into the stores for autograph sessions and informal discussions and seminars.

B. Dalton is able to identify trends early with the aid of an advanced computerized inventory system, a tool that allows B. Dalton's buyers to monitor the sale of every title in every store. Given this information, buyers can reorder fast-selling titles, as well as related books that can result in additional sales.

B. Dalton's inventory system assures a consistently high in-stock position of not just best-selling trends, but of all the most-wanted titles. It also provides the flexibility to tailor stocks to local and regional preferences.

B. Dalton
BOOKSELLER

DAYTON
HUDSON
JEWELERS



Entertainer George Burns is interviewed in New York while signing his autobiography at B. Dalton's Fifth Avenue store.

Department Stores

The department store group consists of Hudson's in Michigan, Indiana and Ohio; Dayton's in Minnesota, North Dakota and South Dakota; Diamonds in Arizona and Nevada; and John A. Brown in Oklahoma. Each company has achieved a position of fashion and quality leadership within its markets. At year-end, the group operated 45 stores, most located in regional shopping centers.

Department store revenues increased only slightly in 1979, in part because Lipmans' department stores were sold during the year. If Lipmans' 1978 revenues are excluded from the comparison, the department store group would show a 5% increase in revenues.

Operating profit contribution was down 11% from 1978, as a result of lower earnings at two of the group's four operating companies, and the exclusion of Lipmans' earnings from 1979 totals. If Lipmans' results were excluded from 1978 totals, the group's decline in 1979 earnings contribution would have been 7%.

Diamonds led the group in revenue growth, reporting an 18% increase over 1978. Dayton's and John A. Brown both reported gains of 7%, while Hudson's revenues were up slightly.

Dayton's reported strong earnings growth for the year, as operating profit increased 18% over 1978. Operating profit contribution was up at John A. Brown also, increasing 23% over last year.

These gains were offset, however, by lower earnings at both Hudson's and Diamonds. After several years of steady earnings growth, Hudson's recorded a 19% decline in operating profit—due, in part, to difficult economic conditions in the Detroit area. Diamonds' 7% drop in profit contribution resulted from increasing competition in the rapidly growing Phoenix market.

Revenues	1979	1978
Hudson's	$ 652,038,000	$ 644,088,000
Dayton's	357,027,000	334,867,000
Diamonds	115,759,000	98,270,000
John A Brown	48,945,000	45,713,000
Lipmans	—	49,387,000
Total	$1,173,769,000	$1,172,325,000

Together, Hudson's, Dayton's, Diamonds and John A. Brown have provided a strong foundation for Dayton Hudson's rapid growth as a public corporation during the 1970s. At the same time, they have sustained significant growth of their own. Today each is a leading department store company within the regional market it serves.

Each company possesses a healthy sales base, good real estate positioning and a strong financial condition. As a group, they combine to produce a consistently high return on investment. As a result, the department stores represent an important and significant source of net income and cash, providing financial support for the Corporation's accelerated expansion program.

The department store group itself will continue to expand at a pace comparable to that in the past, while other operating companies will grow more rapidly.

The expansion plan for the department store group is aimed first at protecting market share through growth in each company's base market, and second at expanding, where possible, into new communities within the surrounding regional marketing area.

The outlook for the department store business in the coming decade is favorable for a number of reasons. The most significant factor is an anticipated increase in the department store customer base, made up primarily of the middle-aged, middle- to upper-income consumer with a high level of purchasing power. This segment of our population is expected to grow faster in the 1980s than any other age group—both in number and as a percentage of the total population.

Fashion Leadership, Regional Strength

Other favorable trends include the growth of the singles market, the increasing numbers of working women and a greater emphasis on the "one-stop" shopping trip—a consumer shopping pattern that the department store format can serve particularly well.

The Dayton Hudson department store group is well-positioned to benefit from these favorable trends. Each of its four companies has a strong regional identity built around a consumer image of fashion leadership, quality merchandise, dominant selections and customer service.

This regional orientation and local commitment has given each company a sensitivity to changing preferences that can only come from knowing its customers thoroughly.

hudson's

DAYTON'S

diamonds

John a. brown

Dayton's FYI — For Your Image *— is a wardrobe planning service for working women that stresses a personalized and professional relationship between the client and the FYI consultant.*

Retail Expansion

Dayton Hudson continued its Retail expansion program in 1979, opening 93 stores totaling 2.4 million square feet of Retail space. At year-end, Dayton Hudson Corporation operated 661 stores in 44 states, the District of Columbia and Puerto Rico.

Building For The 1980s

Department Stores

At year-end, the department store group operated a total of 45 stores in eight states.

One new store was added to the group's total in 1979. Hudson's opened a 103,000-square-foot unit in West Lansing, Michigan. The new store increased Hudson's total operations to 16 department stores at year-end.

Five stores are scheduled to begin operations during 1980. In February, Hudson's opened its first store in Indiana, a 122,000-square-foot unit in South Bend. Hudson's will continue its Michigan expansion in July with the opening of a 123,000-square-foot store in Portage, near Kalamazoo.

Dayton's will open a 100,000-square-foot store in LaCrosse, Wisconsin, in July. The LaCrosse store, Dayton's first in Wisconsin, will increase the company's total stores to 16, six of which are located outside the Minneapolis-St. Paul market.

Diamonds and John A. Brown will each add a store to its primary market during 1980. In August, Diamonds is scheduled to open a store in Mesa, Arizona, the company's seventh in the Phoenix area and tenth overall. John A. Brown plans to open its fourth unit in Oklahoma City in October, bringing its total to six stores.

Low-Margin Stores

Target opened 13 stores in 1979, expanding its operations to 80 stores in 11 states.

Ten stores opened in existing markets, and three in new markets. Three units in Ft. Worth and two in Houston increased the total in each of those markets to nine. In St. Louis, three new stores brought the total there to 10. A fifth store opened in the Milwaukee area, and a second was added in Cedar Rapids, Iowa. New markets were Bismarck, North Dakota, Ft. Collins, Colorado, and Sioux Falls, South Dakota.

Target plans 17 new stores for 1980. Three will open in the existing markets of Dallas, Houston and Denver. The remainder are scheduled for new markets, including three stores in Memphis, Tennessee, two in Wichita, Kansas, and two in Austin, Texas.

Specialty Stores

B. Dalton continued its aggressive expansion program, opening 64 new stores in 1979. At year-end, B. Dalton operated 420 stores in 43 states, the District of Columbia and Puerto Rico.

Expansion plans for 1980 anticipate adding approximately 75 stores during the year. Among them is a unit in Anchorage, Alaska, which began operations in February—the first in that state for B. Dalton and for Dayton Hudson. Scheduled openings also include two 10,000-square-foot central business district stores, one in Seattle, Washington, and another in New York's Greenwich Village.

Six fine-jewelry stores opened and one closed during 1979, giving Dayton Hudson Jewelers 50 stores at year-end. J. E. Caldwell entered the Washington, D.C., market with three units, bringing its total operations to 10 stores, while J. Jessop & Sons added two stores in the San Diego area for a total of eight in that market. C. W. Warren increased its total operations to nine stores with the opening of a unit in Troy, Michigan.

Six new jewelry stores are scheduled to open in 1980, including two additional Shreves' units in the San Francisco area, one J. E. Caldwell store in Washington, D.C., and another in Philadelphia.

Mervyn's

Mervyn's total stores increased to 60 with nine openings in 1979. Mervyn's most successful store openings to date took place in Portland, Oregon, in November. The three Portland locations, Mervyn's first in Oregon, were acquired as part of the transactions leading to the discontinuance of Lipmans department stores.

Three new units in Phoenix brought the total there to five. A second store opened in Las Vegas, as well as one each in Lodi and West Covina, California.

In 1980, Mervyn's plans to open nine stores. An 85,000-square-foot unit in Sun Valley, California, began operations in February. Other stores planned for California include one each in San Bernardino, Lancaster, and El Centro. An additional store in the Phoenix area will also begin operations.

In August, Mervyn's will open four stores in the Salt Lake City area, its first locations in Utah.

Also scheduled to open in August is Mervyn's second distribution center, a 415,000-square-foot facility in Southern California.

1979—A Year of Growth

	End of 1979		End of 1978	
Department Stores	Stores	Space*	Stores	Space*
Hudson's	16	5,563	15	5,481
Dayton's	15	3,047	15	3,047
Diamonds	9	1,112	9	1,112
John A Brown	5	488	5	488
Lipmans**	—	—	7	671
Total	45	10,210	51	10,799
Low-Margin Stores				
Target	80	8,197	67	6,917
Lechmere	6	992	6	992
Total	86	9,189	73	7,909
Specialty Stores				
B Dalton	420	1,550	357	1,338
Jewelers	50	194	45	181
Team**	—	—	11	29
Total	470	1,744	413	1,548
Mervyn's	60	4,638	51	3 902
Total Retail Stores	661	25,781	588	24,158

*Thousands of square feet (excluding office, warehouse and vacant space)

**Lipmans and Team were sold in 1979.

Corporate Responsibility

Corporate governance—the board of directors' role in governing business—is an issue of increasing importance today. More than ever before, management is accountable not only to the specific constituencies the corporation serves, but also to society as a whole.

The formal position description of the Dayton Hudson Board of Directors defines its role as "the primary force pressing the Corporation to the realization of its opportunities and the fulfillment of its obligations to its shareholders, customers, employees and the communities in which it operates." As such, the Board represents the very foundation of effective and responsible corporate management.

Areas of Responsibility

The Dayton Hudson Board of Directors fulfills these responsibilities by performing duties that fall into four major areas: planning, organization, operations and audit.

Planning includes the approval of overall management philosophy and major policies, and the annual review and approval of the Corporation's strategy, capital allocations, long-range goals, and financial standards, policies and plans.

In the area of organization, the Board reviews the current and long-term strength of top management and approves compensation and benefits policies and practices. It also appoints Board committees upon the recommendation of the Board's Executive Committee.

With regard to operations, Board members review the Corporation's financial results in relation to corporate philosophy and goals and the performance of the competition. They authorize major actions such as the declaration of dividends, acquisitions, new strategies and divestitures, and capital expenditures above specified

Governance: A Foundation For Management

limits. They also annually review their own performance as a Board and take any necessary steps to improve that performance.

Finally, through its audit function, the Board ensures that published reports accurately reflect the Corporation's operating results and financial condition. It also monitors potential conflicts of interest between the Corporation and its employees and selects outside auditors, subject to shareholder approval.

Five Standing Committees

The Board's major duties are accomplished by five standing committees which concentrate on specific areas of overall Board responsibility.

The *Executive Committee* monitors organizational strength to ensure that the Corporation can achieve its goals. It also provides for the effective utilization of the executive compensation program.

The *Audit Committee* was established in 1969, a full nine years before the New York Stock Exchange began requiring such committees of all public corporations listed on the Exchange. This committee reviews the scope of both the internal audit and control programs, as well as that of the independent public auditors. It also reviews the management of the Corporation's employee benefits plans.

The *Finance Committee* reviews and recommends financial policies and standards pertaining to earnings growth and return on equity, debt ratio, dividend policy, and short- and long-term investment criteria. It also evaluates major acquisitions and divestitures from a financial standpoint, and reviews the Corporation's financing requirements.

The *Social Responsibility Committee*, created in 1972, is concerned with the Corporation's duties as a corporate citizen in the communities in which it operates.

Finally, the *Long-Term Incentive Plans Committee* oversees the Corporation's executive incentive and stock option plans to ensure their effective utilization.

Composition of The Board

Each member of the Dayton Hudson Board of Directors brings to the assignment individual attributes which contribute to the collective quality, balance, independence and commitment of the Board.

The Dayton Hudson Board is presently made up of 16 directors. Six are currently active in the day-to-day management of Dayton Hudson, either with the Corporation itself or with one of its operating companies. Two are former members of senior management. The remaining directors come from outside the Corporation, representing a diversity of backgrounds and some of the most prestigious corporations and institutions in American business, education and research.

Corporate Citizenship

A very important responsibility of the Board of Directors is to ensure that the Corporation maintains a standard of excellence in citizenship in the communities in which it does business.

It is the policy of Dayton Hudson Corporation to strive to improve the communities in which it operates through contributions and investments for socially responsible purposes. The Dayton Hudson Foundation also carries on a vigorous program of community improvement through its charitable contributions program. The combined amount dedicated to these endeavors is equal to 5% of the Federal taxable income from ongoing operations of the Corporation.

In 1979, funds expended by the Corporation, its operating companies and the Dayton Hudson Foundation totaled $9.4 million. A copy of the report on contributions in 1979 can be obtained by writing to the Senior Vice President, Environmental Development.

Financial Review

The following discussion of Dayton Hudson's financial objectives, policies and planned capital expenditures relates to the Corporation's continuing operations Because of the discontinuance of our Real Estate business and the sale of a large portion of its assets, we no longer treat Real Estate as a separate line of business.

All financial comparisons below are based on earnings from continuing operations, and on consolidated balance sheets Earnings from the discontinued Real Estate business have been excluded from the comparisons. This approach is appropriate because the proceeds from the sale of our Real Estate assets are being directed into our Retail business The resulting large equity infusions on the financial statements of continuing operations have caused return on investment measures to vary from year to year. As these equity infusions become mature Retail investments, the productivity of our permanent capital should improve and result in more favorable financial comparisons.

Financial Objectives

Dayton Hudson's primary financial goal is to provide its shareholders with a superior return on their investment over time, while maintaining a consistently strong and conservative financial position. We believe that we can achieve this goal by growing at a rate which is among the highest in the retail industry, with the expectation that our shareholders will benefit as a result from increasing cash dividends and a higher price on their Common Stock.

To manage this growth, we have established specific financial objectives and clearly defined financial policies, which serve as a framework for decision making. Our financial objectives can be summarized as follows:

- **Return on Equity (ROE):** To earn a consistent after-tax return on beginning shareholders' equity of at least 16%. Based on earnings from continuing operations and consolidated balance sheets, ROE was 15.6% in 1979 and 16.8% in 1978. ROE in 1978 was reduced by the impact of unusual expenses.

  Gains from the 1978 sale of shopping center properties increased beginning equity in 1979 by $164 million. This equity infusion reduced 1979 ROE by four percentage points. As the cash proceeds from these and subsequent Real Estate sales are reinvested in our Retail businesses, ROE is expected again to exceed our objective.

- **Earnings Per Share (EPS) Growth:** To sustain an annual growth in earnings per share of at least 12%. EPS from continuing operations in 1979 increased 15% if the impact of unusual expenses on 1978 earnings per share is disregarded EPS in 1978 increased 19% over 1977 (before the unusual expenses), and has increased at a compound annual growth rate of 32% over the past five years and 17% over the past ten.

- **Debt Rating:** To maintain a strong rating of our senior debt. During 1979, our long-term debt was rated A+/A, and our commercial paper A-1/P-1, by Standard & Poor's and Moody's. In April 1980, Standard & Poor's raised the long-term debt rating of Dayton Hudson to AA Our financial policies described below are structured to support the quality of our credit rating.

The key factor which underlies each of these financial objectives is return on investment (ROI) We believe that ROI is the most important single measure of operating performance, and it is the primary financial tool we use to manage our business.

ROI is defined as the product of investment turnover and return on sales.

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Earnings}}{\text{Sales}} = \frac{\text{Earnings}}{\text{Investment}}$$

After-tax earnings are adjusted to exclude financing costs, in order to reflect the profitability of unleveraged capital Investment is the sum of working capital and non-current assets, including the present value of all leases (capital *and* operating).

After-tax ROI from continuing operations was 11.8% in 1979, compared with 10 4% in 1978. ROI performance in 1978 would have been higher than in 1979 except for the impact of unusual expenses. As assets of discontinued operations become fully employed in our Retail operations, we expect ROI comparisons to improve.

	ROI	=	Investment Turnover	×	Return on Sales
1979	11 8%	=	2 8	×	4 2%
1978	10.4%	=	2.8	×	3.7%

The following table shows investment and return on investment for 1979 and 1978, based on earnings from continuing operations and consolidated balance sheets.

(Millions of Dollars)	1979	1978
Net Earnings from Continuing Operations	$ 126 5	$ 97 6
Interest Expense - After Tax	4 8	4 9
Interest Equivalent in Leases - After Tax (a)	11 5	8 6
Earnings from Continuing Operations before Financing Costs	$ 142 8	$ 111.1
Beginning of Year Investment — Consolidated		
Working Capital (b)	$ 439 6	$ 327 0
Net Property and Equipment	472 2	379 7
Non-Current Assets of Discontinued Operations	48 2	150 0
Other Assets	5 7	6.1
Capital Leases	70 9	57.0
Present Value of Operating Leases	172 3	147 0
Total Investment	$1,208 9	$1,066 8
Return on Investment	11 8%	10 4%

(a) The interest equivalent in lease obligations was determined by assuming an after-tax interest rate on beginning of year capital leases and the present value of operating leases of 4 7% in 1979 and 4 2% in 1978

(b) Current assets less current liabilities (excluding interest-bearing debt).

Our future success in achieving our objectives will depend to a great degree upon our effective continued application of ROI in the following basic processes of managing the Corporation:

- **Performance Appraisal:** ROI is used to assess our ability to earn a high return on existing assets. The management of each Dayton Hudson operating company is evaluated and compensated based on a measure of that company's ROI, as well as upon its success in achieving growth in earnings.

- **Capital Allocation:** One of the most important functions of Corporate management is the process of allocating capital for expansion. ROI is a pivotal factor in this process. Capital is allocated based on an individual operating company's proven achievement of its ROI standard and the projected performance of its new investments against that standard. Additional criteria for allocating capital include the quality of the company's strategic plan, strength of the management team and systems, and development of market position.

- **Capital Project Evaluation:** Each new capital project is subject to an individual ROI analysis. All new investments must meet corporate-wide ROI standards. For example, plans for each new store must project an ROI of at least 12% by the store's fifth full year of operation and an internal rate of return (discounted cash flow) over its life of at least 12%. Audits of individual store results in the years following completion determine whether performance has met our standards.
- **New Strategy Identification:** ROI assists us in the identification of potential high-return strategies for future investments. Possible new strategies are analyzed to determine whether they would meet our ROI expectations, and, if so, whether they represent opportunities for investment which are as attractive as expansion of our existing businesses.

Financial Policies and Position

The Corporation's financial policies are designed to support our financial objectives and to enable us to maintain a strong, conservative capital structure that will permit financing flexibility as we continue our growth. Our financial position grew stronger in 1979 as a result of increased earnings and our progress in selling the assets of our discontinued Real Estate business.

Capitalization: Management believes in the prudent use of debt financing to support the attainment of our financial objectives. We have determined that a consolidated debt ratio, including capital leases and the present value of operating leases, of 40-50% of total capitalization would be appropriate for the Corporation, if our financial performance continues to meet our objectives. We expect gradually to increase the debt ratio toward this range during the next five years, while maintaining a conservative level of fixed charge coverage.

The Corporation ended 1979 with a very strong capital structure. The consolidated debt ratio was 29%, compared with 32% in 1978 and 44% in 1977. This reduction over the last several years has been the result of increased internal cash flow and the proceeds from the sale of Real Estate assets. The only significant financing activity in 1979 was the addition of $35 million in privately placed debt and approximately $36 million of new capital and operating leases. We also established a $75 million revolving credit agreement during 1979, no funds have yet been borrowed under this agreement.

Capitalization — Continuing Operations (Millions of Dollars)	1979	1978	1977
Notes Payable	$ —	$ —	$ 4.5
Long-Term Debt (incl. Current Portion)	123.8	101.1	122.9
Capital Leases (incl. Current Portion)	79.1	81.7	66.3
Present Value of Operating Leases	187.9	172.3	147.0
Long-Term Debt, Discontinued Ops	9.1	28.8	130.0
Total Debt and Equivalent	399.9	383.9	470.7
Deferred Items	14.1	16.6	16.3
Equity	962.6	808.4	579.8
Total Capitalization	$1,376.6	$1,208.9	$1,066.8
Debt Ratio (Total Debt and Equivalent as a percentage of Total Capitalization)	29%	32%	44%

Financing Methods: The greater part of our growth has been financed with internally generated funds. We plan to finance over half of our expansion for the 1980-1984 period internally with retained earnings, depreciation and proceeds from the sale of Real Estate assets. Because we own the majority of our department and low-margin stores, depreciation provides a significant source of cash flow. The majority of our specialty stores will continue to be leased.

A higher debt ratio has not been necessary to support the growth of our Retail business in the last two years, but we expect to add substantial additional debt for this purpose in the future. Our financial policies provide for a high degree of flexibility as to sources of funds, in order to minimize our overall cost of funds and gain access to a variety of funding sources.

Dividends: In support of our goal of providing our shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends per share of Common Stock, consistent with earnings growth over time. A reduction in dividends per share would be considered only if economic or financial conditions were so severe as to threaten the Corporation's ability to sustain its profitability and growth over the long run.

Dividends paid in 1979 to holders of common shares totaled $1.65 per share, a 14% increase over the $1.45 per share paid in 1978. The quarterly dividend was increased to $.45 for the dividend payable December 10, 1979. The current annualized rate is $1.80 per share.

Capital Expenditures: Capital expenditures during 1979 reflected our continuing aggressive growth program, made possible by our strong financial position and competitive performance. Capital investment in Retail operations, including the present value of all new capital and operating leases, totaled $247 million in 1979, compared with $192 million in 1978 and $130 million in 1977.

(Millions of Dollars)	1979	1978	1977
Capital Expenditures	$211	$136	$ 95
Present Value of New Leases	36	56	35
Total	$247	$192	$130

During the 1980-1984 period, we plan to invest approximately $1.7 billion in our existing Retail businesses. Because of the long lead times required for planning and construction of retail stores, the Corporation makes commitments for many of its capital projects well in advance of the time the capital expenditures are actually made. Our financial policies place limits on the amounts of such forward commitments which can be accumulated for future years. It is our intention that these commitments for future expenditures not exceed levels which could be funded by internally generated funds should external financing be unavailable.

Summary and Analysis of Operations

Earnings per share from continuing Retail operations increased 29% in 1979, compared with a 6% increase in 1978. Excluding unusual expenses incurred in 1978, Retail earnings per share increased 15% in 1979 versus 19% in 1978. The table below illustrates the change in earnings between 1979 and 1978, and between 1978 and 1977.

	1979	1978	1977
Earnings Per Share — Continuing	$5 33	$ 4 12	$3.89
Earnings Per Share — Discontinued	2 77	7 09	27
Consolidated Earnings Per Share	$8 10	$11 21	$4 16

Variance Analysis:	1979 vs 1978	1978 vs 1977
Continuing Retail Operations		
Prior Year's Earnings Per Share	$4 12	$3 89
Add Back Prior Year's Unusual Items	52	—
Prior Year's Earnings Per Share Before Unusual Items	4 64	3.89
Change in Earnings Per Share due to.		
Sales Volume and Finance Charge Revenue	79	.88
Gross Margin Rate (Including LIFO Provision of $ 31 and $ 15)	(33)	.03
Operating Expense Rate	(10)	(.13)
Start-up Expense	(01)	(.09)
Corporate Expense	(07)	(12)
Interest Expense	01	03
Interest Income	19	—
Income Tax Rate	23	.11
Other Factors	(02)	.04
Earnings Per Share Before Unusual Items	5 33	4 64
Unusual Items	—	(.52)
Earnings Per Share — Continuing	$5 33	$4 12
Discontinued Real Estate Operations		
Prior Year's Earnings Per Share	$7 09	$ .27
Changes in Earnings Per Share due to		
Operating Income	(26)	(29)
Interest Income	(15)	13
Gain from Property Sales	(4 04)	6.83
Joint-Venture Operations	(05)	.01
Other Factors	18	.14
Earnings Per Share — Discontinued	$2 77	$7 09

Revenues increased 14 3% in 1979, compared with 18.7% in 1978. Excluding 1978 revenues of Lipmans and Team Central, 1979 revenues were up by 17.8%. The compound annual rate of growth in revenues for the past five years (1974-1979) was 16%. The following table shows revenue increases for each segment of our Retail business:

			1979 Increase		1978 Increase	
	1979	1978	All Stores	Com-parable Stores	All Stores	Com-parable Stores
	(Millions of Dollars)					
Department	$1,173 8	$1,172 3	0 1%	2 2%	11.3%	4.5%
Low-Margin	1,297 4	1,055 1	23 0	8 6	22.9	10 0
Specialty	257 7	255 0	1 1	8 2	19 4	9 9
Mervyn's	655 9	479 5	36 8	19 5	29.9	18 5
	$3,384 8	$2,961 9	14 3%	7 9%	18 7%	8 9%

Comparable-store revenues (from stores open at least 12 months) increased 7.9% in 1979 versus 8.9% in 1978 Inflation accounted for a portion of these revenue increases. The Bureau of Labor Statistics Department Store Inventory Price Index, used as an indicator of the impact of inflation on certain retailers, rose by 5 8% in 1979 and 4.9% in 1978 These increases were lower than the improvement in total comparable-store revenues, indicating that we achieved increases in real unit sales from comparable stores in both 1979 and 1978.

Revenues per square foot of all stores, a measure of productivity, increased 6 2% in 1979. Mervyn's stores achieved the largest gain over last year, while specialty stores operated at the highest productivity level.

	Revenues Per Square Foot*		
	1979	1978	1977
Department	$115	$115	$109
Low-Margin	152	142	130
Specialty	158	154	145
Mervyn's	154	136	129

*Average of beginning and end of year square feet Data for all years excludes Lipmans and Team.

Cost of Sales increased 15.2% in 1979, while sales increased 14.3%. In 1978, cost of sales increased 18.2%, compared with a sales increase of 18.6%. Our gross margin rate thus declined in 1979, compared with an increase in 1978.

The decline in the gross margin rate in 1979 was primarily attributable to:

- A higher proportion of sales contributed by our low-margin stores. As a result of our expansion program, the low-margin segment now generates the largest portion of total revenues, having surpassed the department store segment for the first time in 1979 Because our growth plans emphasize the continued rapid expansion of our low-margin business, a natural pressure on the Corporation's consolidated gross margin rate is expected to continue.
- Promotional and seasonal markdowns, taken primarily in the fourth quarter, to improve inventory positions
- An accelerating rate of inflation, which exerted pressure on gross margins by causing costs of goods to rise more rapidly than our ability or willingness to raise prices. Dayton Hudson utilizes the last-in, first-out (LIFO) method of inventory valuation, which matches current costs with current revenues The LIFO method compensates to some extent for the impact of inflation on inventory purchases during periods of rising prices. The provision for LIFO inventory expense increased $13 9 million in 1979, compared with a $6 1-million increase in 1978.

Operating Expenses as a percent of sales increased only slightly in 1979 to 28.0%, compared with 27 9% in 1978 The relationship of operating expenses to sales is an indicator of the relative amount of each sales dollar that is required for buying and occupancy expense, advertising and various other costs which directly support Retail operations. The 1979 increase was primarily attributable, as it was in 1978, to increased payroll costs resulting from the higher minimum wage.

Components of operating expense are particularly subject to the effects of inflation. Management has partially offset the higher costs resulting from inflation by actions aimed at increasing the productivity of personnel and making our operations generally more efficient. The ability of the Corporation to hold down increases in operating expense rates over the last several years also reflects the increasing relative size of our low-margin operations, which typically incur lower operating expenses per dollar of sales than our other Retail businesses Comments on various components of operating expense are as follows.

- Buying and occupancy costs increased 8% during 1979, compared with a 21% increase in 1978. Buying and occupancy includes receiving and marking costs, warehouse and merchandising costs, and occupancy expenses such as utilities and maintenance.
- Selling, publicity and administrative expenses, including selling payroll and advertising expenses, increased 16% in 1979 and 21% in 1978.
- Depreciation and amortization expense increased by 27% in 1979 compared with 10% in 1978 The addition of new facilities and a higher proportion of new stores owned (versus leased) in 1979 were primarily responsible for these increases The 1978 increase was unusually low because of a change during that year in the Corporation's estimate of remaining depreciable lives.
- Rent expense increased 17% in 1979, compared with 28% in 1978. The 1979 increase was due mainly to new store leases, the rate of increase declined because of the higher proportion of owned stores.
- Taxes other than income taxes increased 14% in 1979, compared with an 11% increase in 1978 The 1979 increase primarily reflects higher Social Security costs resulting both from an increase in the wage base because of higher minimum wages and from higher Social Security tax rates
- The provision for doubtful accounts increased 23% in 1979 and 44% in 1978, reflecting higher credit sales and extended payment terms used by department store customers.
- Advertising expenses increased 14% in 1979, compared with a 17% increase in 1978.

Start-up Expense, the costs associated with the opening of new stores, increased by 4% in 1979, compared with increases of 31% and 16% in 1978 and 1977, respectively. The rate of increase in start-up expense was lower in 1979 than in the previous years, even though more new stores were opened, because the Corporation began to capitalize various costs which had previously been expensed. This change reduced overall expenses by approximately $4.4 million, part of which applied to start-up expense.

Operating Profit after all of the above expenses, and excluding Lipmans and Team Central from 1978 results, increased 8 4% in 1979, compared with an increase of 16.8% in 1978.

Operating profit in the first three quarters of 1979 was up by 11%, 17% and 21%, respectively, over the same periods in 1978, but declined by 1% in the fourth quarter This lower fourth-quarter performance, which resulted primarily from higher LIFO expense and a decline in the profitability of the department store segment, was the reason for the slower growth of operating profit in 1979. Despite a strong increase in 1979 operating profit at Dayton's, declines at Hudson's and Diamonds resulted in a 10.7% decrease for the department stores as a group Low-margin stores, specialty stores and Mervyn's all recorded increases in operating profit over 1978.

Over the past five years, the strong growth of the low-margin segment and Mervyn's, and the rapid expansion of the specialty stores, has resulted in a decline in the percentage contribution of the department store segment to total operating profit Although still the primary source of operating profit, contributing 38 4% of the total in 1979 (compared with 54% in 1975), the department stores are followed closely by the low-margin segment and Mervyn's, each contributing approximately one-fourth of total operating profit.

Corporate Expense rose by $3 2 million in 1979, compared with an increase of $5 6 million in 1978 The increases in both years were due to higher Corporate staff expenses and charitable contributions. The 1978 increase also includes a $1 8 million provision for satisfaction of a lawsuit against Team

Interest Expense decreased to $9 1 million in 1979 from $10 0 million in 1978, while 1979 interest income increased substantially to $10 2 million from $1 8 million in 1978 As a result, $1 1 million of net interest income was provided to continuing operations in 1979, versus net interest expense of $8 2 million in 1978.

Income Tax Rate for Retail operations was 47 5% in 1979, compared with 49.8% in 1978 (excluding the impact of unusual expenses). The lower rate resulted from the lower Federal income tax rate in effect during 1979 and from additional investment tax credit. The lower tax rate contributed significantly to the 1979 increase in earnings per share.

Unusual Expenses of $.52 per share were incurred in 1978. These expenses included $2.9 million of merger fees resulting from the business combination with Mervyn's, a $13 2 million provision for loss on the planned closing and demolition of Hudson's downtown Detroit store, and $3 7 million of expense provided for the disposition of Lipmans and Team.

Discontinued Real Estate Operations: In May 1978, the Corporation closed the sale of nine wholly owned regional shopping centers to the Equitable Life Assurance Society of the United States Also in fiscal 1978, the Board of Directors approved a formal plan for disposition of the Corporation's remaining Real Estate interests which are not directly employed or to be employed in its Retail operations. During 1979, two more wholly owned shopping centers were sold, as well as our joint-venture interests in four other centers. Primarily as a result of these transactions, net earnings from discontinued Real Estate operations were $2.77 per share in 1979 and $7.09 per share in 1978. Negotiations continue for the sale of our remaining Real Estate assets The proceeds from these Real Estate sales are being reinvested in our Retail expansion program.

Common Stock Price and Dividend Data

Dayton Hudson Corporation Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange with the symbol *DH*, and abbreviated in newspaper listings as *DaytHd* At year-end, the number of Dayton Hudson shareholders was 12,332, compared with 12,804 at year end 1978. The average common shares outstanding in 1979 was 23,691,000

	Common Stock Price Range				Quarterly Dividend Paid Per Share	
	1979		1978			
Fiscal Quarter	High	Low	High	Low	1979	1978
First	$41¼	$36½	$42⅜	$35¼	$ 40	$ 35
Second	41¼	37¾	44¼	36⅜	40	35
Third	44⅞	39½	43	35⅝	40	35
Fourth	46¼	38¾	39¼	33¼	45	40
Year	$46¼	$36½	$44¼	$33¼	$1 65	$1 45

Consolidated Results of Operations
Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars, Except Per Share Data)

	1979	1978
REVENUES, including leased departments and finance charges (Note D)	$3,384,849	$2,961,884
COSTS AND EXPENSES		
Cost of retail sales, buying and occupancy	2,353,463	2,055,362
Selling, publicity and administrative	626,559	539,474
Depreciation and amortization	43,720	34,401
Rental expense	50,836	43,530
Interest (income) expense (Note J)	(1,062)	8,207
Interest and depreciation on capital leases (Note G)	13,429	12,023
Taxes other than income taxes	57,229	50,237
	3,144,174	2,743,234
EARNINGS FROM CONTINUING OPERATIONS BEFORE UNUSUAL EXPENSES AND INCOME TAXES	240,675	218,650
UNUSUAL EXPENSES (Note B)	—	19,750
EARNINGS BEFORE INCOME TAXES	240,675	198,900
INCOME TAXES (Note P)		
Current	102,737	96,381
Deferred	11,468	4,880
	114,205	101,261
NET EARNINGS FROM CONTINUING OPERATIONS	126,470	97,639
DISCONTINUED OPERATIONS, net of income taxes (Note C)		
Net gain from property sales	68,708	163,775
Other operations	(3,089)	3,491
NET EARNINGS FROM DISCONTINUED OPERATIONS	65,619	167,266
NET EARNINGS	$ 192,089	$ 264,905
NET EARNINGS PER SHARE		
Continuing operations	$ 5.33	$ 4.12
Discontinued operations	2.77	7.09
	$ 8.10	$ 11.21

See accompanying Notes to Financial Statements

Consolidated Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)

ASSETS	1979 February 2, 1980	1978 February 3, 1979
CURRENT ASSETS		
Cash and short-term investments	$ 94,818	$ 61,456
Accounts receivable (Note D)	521,432	468,850
Merchandise inventories (Note E)	424,680	393,437
Discontinued segment	44,703	103,982
Other	9,935	12,750
	1,095,568	1,040,475
PROPERTY AND EQUIPMENT (Notes F and J)	629,773	472,187
LEASED PROPERTY UNDER CAPITAL LEASES (Note G)	67,221	70,888
NON-CURRENT ASSETS OF DISCONTINUED SEGMENT	36,165	48,244
OTHER ASSETS	4,058	5,696
	$1,832,785	$1,637,490

LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable (Note I)	$ 298,131	$ 246,971
Accrued liabilities	163,718	142,455
Income taxes (Note P)	156,914	142,151
Current portion of long-term debt and capital lease obligations	12,335	11,715
Discontinued segment	25,637	69,594
	656,735	612,886
LONG-TERM OBLIGATIONS		
Capital lease obligations (Note G)	73,027	76,824
Long-term debt (Note J)	117,602	94,310
Discontinued segment	13,962	36,403
Other	8,848	8,702
COMMITMENTS AND CONTINGENCIES (Notes G and K)	—	—
SHAREHOLDERS' INVESTMENT (Note L)	962,611	808,365
	$1,832,785	$1,637,490

See accompanying Notes to Financial Statements

Consolidated Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)

	1979	1978
SOURCES		
Continuing Operations:		
Net earnings	$126,470	$ 97,639
Depreciation and amortization		
Property and equipment	43,720	34,401
Capital leases	6,955	6,020
Provision for loss on store closing (Note B)	—	13,200
Other items	1,289	(6,961)
Provided by operations	178,434	144,299
Net increase in capital lease obligations	285	14,868
Disposals of property and equipment	2,449	2,594
Disposition of Lipmans and Team (Note B)	6,260	—
Increase in long-term debt (Note J)	36,004	812
Other, net	2,731	4,719
	226,163	167,292
Discontinued Operations:		
Provided by operations	(1,211)	(1,362)
Property sales (Note C)	53,781	136,806
Other non-current assets, net	2,687	20,622
	55,257	156,066
	$281,420	$323,358
USES		
Continuing Operations :		
Capital expenditures		
Property and equipment	$211,322	$136,111
Capital leases	6,916	19,989
Dividends	40,539	38,723
Reduction of long-term debt	11,399	10,381
Increase in working capital	11,244	118,154
	$281,420	$323,358
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Cash and short-term investments	$ 33,362	$ 7,607
Accounts receivable	52,582	66,266
Merchandise inventories	31,243	56,090
Discontinued segment	(59,279)	88,519
Other	(2,815)	3,362
Increase in current assets	55,093	221,844
Notes payable	—	(4,497)
Accounts payable	51,160	2,932
Accrued liabilities	21,263	32,167
Income taxes	14,763	31,719
Current portion of long-term debt and capital lease obligations	620	1,249
Discontinued segment	(43,957)	40,120
Increase in current liabilities	43,849	103,690
Increase in working capital	$ 11,244	$118,154

See accompanying Notes to Financial Statements

Consolidated Statement of Shareholders' Investment

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)

	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
BALANCE JANUARY 28, 1978	$579,807	$522	$23,546	$55,958	$499,781
Net earnings:					
Continuing operations	97,639				97,639
Discontinued operations	167,266				167,266
Dividends (a)	(38,723)				(38,723)
Stock options and conversions of Preferred Stock	2,376	(57)	106	2,327	
BALANCE FEBRUARY 3, 1979 (Note L)	808,365	465	23,652	58,285	725,963
Net earnings:					
Continuing operations	126,470				126,470
Discontinued operations	65,619				65,619
Dividends	(40,539)				(40,539)
Stock options and conversions of Preferred Stock	2,696	(12)	91	2,617	
BALANCE FEBRUARY 2, 1980 (Note L)	$962,611	$453	$23,743	$60,902	$877,513

(a) In 1978, the Corporation changed its method of accounting for dividends from recording the dividend as of shareholder record date to the earlier dividend declaration date.

See accompanying Notes to Financial Statements.

Notes to Financial Statements

Fiscal Years Ended February 2, 1980 and February 3, 1979 (Thousands of Dollars, Except Note Q)

NOTE A. SUMMARY OF ACCOUNTING POLICIES

Dayton Hudson Corporation follows generally conservative accounting policies

Consolidation — The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, all of which are wholly owned, after elimination of material intercompany balances and transactions.

The detailed segment of business information on the department low-margin, specialty and Mervyn's segments set forth in "Five-Year Segment-of-Business Comparisons" is incorporated herein by reference

Accounts Receivable and Allowance for Losses — The Corporation's policy is to write off accounts receivable when any portion of the balance is more than 12 months past due, or when the scheduled payment has not been received for six consecutive months The allowance for losses for uncollectible customer accounts receivable is based upon historical bad-debt experience and current agings of the accounts. Certain accounts due after one year are classified as current in accordance with industry practice.

Inventories — Inventories and related cost of sales are accounted for by the retail inventory method using the last-in, first-out (LIFO) basis.

Property and Equipment — Property and equipment is carried at cost less accumulated depreciation.

Depreciation is computed using the straight-line method for financial reporting purposes and accelerated methods for tax purposes except in the case of leased property under capital leases where normal rent expense is deducted for tax purposes

The following policies are used in computing depreciation:

Land improvements	20 years
Buildings and improvements	8 to 55 years
Fixtures and equipment	4 to 8 years
Leasehold improvements	Lease term, or useful life of asset, whichever is less
Tenant allowances	18 or 24 years
Leased property under capital leases	Lease term or useful life of asset if ownership is transferred

Beginning with the first quarter of fiscal 1979, the Corporation changed its criteria for capitalization of certain costs This change in the application of an accounting policy resulted in the capitalization of approximately $4,389 of costs which would formerly have been expensed.

As required by a recently issued Statement of Financial Accounting Standards, effective at the beginning of fiscal 1980, the Corporation will adopt a policy of capitalizing interest costs on certain assets constructed for its own use, primarily new stores The Corporation currently expenses all interest in the period it is incurred.

Expenditures for maintenance and repairs are charged to expense. Betterments and major renewals are capitalized and charged to the appropriate property account. The cost of assets retired or otherwise disposed of and the related allowances for depreciation and amortization are eliminated from the accounts in the year of disposal, and the resulting gain or loss is reflected in the results of operations.

Income Taxes — Gross profit on retail installment sales is recognized for financial reporting purposes when the sales are recorded. For income tax purposes, the installment method of reporting profit on installment sales is used.

Deferred income taxes arising from retail installment sales are included in the Consolidated Statements of Financial Position as a current liability. Other deferred income taxes result principally from accelerated depreciation methods

The Corporation and its subsidiaries file Consolidated Federal income tax returns Certain state income tax returns are also filed on a consolidated basis, although the majority of the state returns are filed on a separate company basis.

The investment credit reduces income taxes in the year the property is placed in service.

Other Costs — Expenses incurred in connection with obtaining long-term financing are amortized throughout the term of the related debt.

Interim Reporting — The unaudited interim financial data furnished in Note Q has been prepared based on accounting policies applicable to annual data. In addition, certain accounting policies are applicable only to the preparation of interim data, the most significant of which are:

1. Costs associated with the opening of new stores each fiscal year are provided for ratably throughout the year.
2. Real estate taxes, bonuses, contributions, professional fees, and pension plan expense are provided for ratably throughout the year based on anticipated annual amounts.
3. Percentage rental expense is incurred based upon the excess of monthly sales over an apportionment of the annual sales amounts below which no percentage rental is required.
4. The estimated annual provision for LIFO expense is allocated to interim periods based on monthly sales and to the individual operating companies based upon historical experience The fourth quarter of each year includes an adjustment to reflect the actual index of inflation on retail inventories furnished by the Bureau of Labor Statistics
5. Income taxes are provided on interim earnings using an anticipated effective annual tax rate Any significant gains on sales of property are treated separately at their actual rates.

Employee Benefits — The Corporation and its subsidiaries have defined benefit retirement plans covering substantially all employees. Pension costs are paid to the plans as accrued by the Corporation. Costs with respect to the plans are actuarially computed using the "Frozen Initial Liability Aggregate Cost Method-Modified" Under this method, unfunded costs and actuarial gains and losses are spread over future periods ranging from 15 to 36 years.

In addition, a Savings and Stock Purchase Plan is made available to substantially all of the Corporation's employees, exclusive of Mervyn's, who meet the eligibility requirements (primarily based on age and length of service). Employees can contribute up to a maximum of 10% of their current cash compensation to the plan. Under this plan, the Corporation contributes up to a maximum of 2½% of the participant's current cash compensation by contributing 50 cents for each dollar deposited by the employee. Employees become partially vested after participating in the plan for two years The employee is fully vested after six years. Mervyn's eligible employees participate in a Supplemental Retirement Plan (defined contribution profit-sharing plan) which continues in effect, although no new persons can become participants, nor will contributions be made in future years

Per Share Data — Net earnings per share for consolidated and continuing operations have been computed after provision for dividends on Preferred Stock based upon the weighted average number of common shares outstanding. Per share amounts for discontinued operations have been computed based on net earnings for discontinued operations. Exercise of stock options and stock appreciation rights, earnout of performance shares and conversions of Preferred Stock would not have a materially dilutive effect on earnings per share.

Fiscal Year — The Corporation's 1979 fiscal year ended on the Saturday nearest to January 31 (February 2, 1980) and included 52 weeks. The Corporation's 1978 fiscal year ended on February 3, 1979 and included 53 weeks.

Reclassification of Accounts — Certain account balances of prior years have been reclassified to conform with current classifications. None of these reclassifications had an effect on net earnings.

NOTE B. SIGNIFICANT TRANSACTIONS AND UNUSUAL EXPENSES

Team Central Incorporated ("Team") was sold and The Lipmans Division ("Lipmans") was discontinued in the first quarter of 1979. The loss on these transactions totaled $1,150 and $3,700 in 1979 and 1978, respectively. Of Lipmans' seven stores, five were sold and one was traded. The remaining store, the store received in the trade and an additional store acquired in the transaction were added to the Mervyn's segment.

Unusual expenses in 1978 include the $3,700 for Team and Lipmans, merger fees of $2,850 as a result of the business combination with Mervyn's, and a $13,200 provision for loss due to the planned closing and demolition of Hudson's downtown Detroit store. These unusual expenses resulted in a charge of $.52 per share in 1978.

NOTE C. DISCONTINUED OPERATIONS

The results of operations for the discontinued segment reflect the Corporation's intention to dispose of its Real Estate assets which are not directly employed or to be employed in its Retail operations. This plan was formally approved by the Board of Directors in fiscal 1978.

During 1979, the Corporation sold two wholly owned shopping centers and four joint-venture interests in shopping center properties for a net gain of $51,142. The Corporation may recognize additional income from these sales if the centers' performance exceeds certain standards in 1980-82 in accordance with the terms of the sales agreements. Discontinued operations also includes net gains of $16,740 in 1979 and $162,371 in 1978 relating to the 1978 sale of nine regional shopping centers.

NOTE D. ACCOUNTS RECEIVABLE AND CREDIT SALES

The detail of accounts receivable in the Consolidated Statements of Financial Position is:

	February 2, 1980	February 3, 1979
Thirty-day accounts	$ 2,770	$ 2,885
Revolving charge accounts	479,531	425,171
Revolving installment accounts	41,079	39,131
Other accounts	19,919	19,272
	543,299	486,459
Less allowance for losses	(21,867)	(17,609)
	$ 521,432	$ 468,850

Included in the Consolidated Results of Operations for 1979 and 1978 are:

Credit sales	$1,352,344	$1,196,150
Finance charge revenue	$ 56,816	$ 49,421
Provision for bad debts on retail credit sales	$ 20,869	$ 15,858

Substantially all revolving charge accounts are due within one year and 35% of revolving installment accounts are due beyond one year. Thirty-day, revolving charge and revolving installment sales were approximately 79% of total credit sales in 1979 and 82% in 1978. Bank card sales made up the balance of credit sales.

NOTE E. MERCHANDISE INVENTORIES

Merchandise inventories by segment are:

	Department	Low-Margin	Specialty	Mervyn's	Total
February 2, 1980	$108,481	$150,130	$67,543	$98,526	$424,680
February 3, 1979	127,966	132,133	62,270	71,068	393,437

The beginning and ending inventories used in determining cost of retail sales are the totals above and $337,347 at January 28, 1978.

If the LIFO inventories had been valued by use of the first-in, first-out (FIFO) retail method, they would have been higher as follows:

	Department	Low-Margin	Specialty	Mervyn's	Total
February 2, 1980	$43,540	$26,812	$18,659	$8,495	$97,506
February 3, 1979	35,594	18,017	12,461	4,570	70,642

The LIFO provision included in cost of retail sales is a charge of $26,864 ($.59 per share) in 1979 and $13,007 ($.28 per share) in 1978.

Management believes the LIFO method of inventory valuation provides better matching of current costs with current revenues. The following information on the LIFO provision by segment and by quarter is provided to illustrate the impact of LIFO on operating profit by segment and on quarterly trends.

The LIFO provision by segment for 1979 and 1978 is:

	Department	Low-Margin	Specialty	Mervyn's	Total
1979	$7,946	$8,795	$6,198	$3,925	$26,864
1978	4,297	1,536	2,604	4,570	13,007

Effective January 29, 1978 the Corporation changed its method of accounting for Mervyn's merchandise inventories from the lower of cost or market, as determined by the retail method applied on an average cost basis, to the retail method applied on a last-in, first-out (LIFO) basis. The change was made in the fourth quarter of 1978.

The LIFO provision by quarter for 1979 and 1978 is:

	First	Second	Third	Fourth	Total
1979	$3,565	$6,163	$9,263	$7,873	$26,864
1978	3,162	3,556	3,932	2,357	13,007

NOTE F. PROPERTY AND EQUIPMENT

The detail of property and equipment in the Consolidated Statements of Financial Position is:

	February 2, 1980	February 3, 1979
Land	$ 91,829	$ 70,158
Buildings and improvements	482,876	402,908
Fixtures and equipment	219,546	171,481
Construction in progress	75,597	41,242
	869,848	685,789
Less accumulated depreciation	(240,075)	(213,602)
	$629,773	$472,187

NOTE G. LEASES

The Corporation owns the majority of its department and low-margin stores and equipment, and leases the majority of its specialty and Mervyn's stores Most of the lease agreements for department and Target stores are considered capital leases. All specialty store and the majority of Mervyn's store leases are considered operating leases Additionally, Mervyn's leases equipment under agreements ranging to 10 years which are considered capital leases. The majority of the Corporation's leases require contingent rentals which are based upon a percentage of sales in excess of stipulated amounts. Additional payments for real estate taxes, insurance, and other expenses, where required, are included in occupancy costs in the accompanying Consolidated Results of Operations. Most leases include options to renew with renewal terms varying from 5 to 25 years. Certain leases also include options to purchase the property.

The present value of the Corporation's minimum lease payments for all operating and capital leases having an initial or remaining noncancellable term in excess of one year, using incremental interest rates at the inception of the leases, is approximately $267,000 at February 2, 1980 and $254,000 at February 3, 1979.

The detail of leased property under capital leases in the Consolidated Statements of Financial Position is:

	February 2, 1980	February 3, 1979
Real property	$ 65,546	$ 68,122
Equipment	37,550	33,435
Less accumulated amortization	(35,875)	(30,669)
	$ 67,221	$ 70,888

The impact of the lease capitalization on the results of operations is:

	1979	1978
Reduction in rent expense	$ 11,272	$ 10,299
Interest expense on capital leases	(6,474)	(6,003)
Depreciation expense on capital leases	(6,955)	(6,020)
Effect on		
Earnings before income taxes	$ (2,157)	$ (1,724)
Earnings per share	$ (.05)	$ (04)

Rent expense on leases with terms in excess of one year included in the results of operations is:

	1979	1978
Minimum rents	$ 30,818	$ 27,701
Contingent rents (includes $838 in 1979 and $1,111 in 1978 applicable to capital leases)	11,073	9,047
Less sublease income	(739)	(1,038)
	$ 41,152	$ 35,710

Future minimum lease payments under noncancellable leases as of February 2, 1980 are:

	Operating Leases	Capital Leases
1980	$ 32,390	$ 12,666
1981	31,188	12,481
1982	29,728	11,637
1983	28,392	10,082
1984	26,876	8,700
After 1984	240,488	86,265
Total minimum lease payments(1)	$389,062	141,831
Less Executory costs		(3,234)
Interest		(59,466)
Capitalized lease obligations, including current portion of $6,104		$ 79,131

(1) Minimum rental payments have not been reduced by minimum sublease rentals due in the future under noncancellable subleases ($3,969 for operating leases, $1,330 for capital leases).

NOTE H. LINES OF CREDIT

The Corporation had $81,500 in unsecured lines of credit with 15 banks at February 2, 1980, none of which was in use at year-end. Borrowings under the lines of credit are at the prime interest rate. As compensation for the line of credit arrangements, the Corporation was expected to and did maintain, during 1979, average net collected compensating balances (ledger balances less float, as computed by the banks) of $3,553 plus fees of $260 in lieu of balances The balances were at all times legally subject to withdrawal without restriction, and served as part of the Corporation's operating cash balance.

During 1979, the Corporation had short-term bank borrowings outstanding on only one day, in the amount of $10,000 Average short-term borrowings (banks and commercial paper) in 1978 were $1,167. The maximum short-term debt outstanding at the end of any month in 1978 was $19,900 The weighted average interest rates during 1979 and 1978 were approximately 12 5% and 9.0% respectively.

In December 1979 the Corporation entered into a three-year revolving credit agreement with two lending institutions which makes available $75,000. Borrowings under the agreement would be convertible at the option of the Corporation into a four-year term loan. Interest on borrowings would be based on the prime rate or on a premium over the London Inter-Bank Offered Rate at the Corporation's option.

NOTE I. OUTSTANDING DRAFTS

Drafts outstanding of $64,151 at February 2, 1980 and $51,367 at February 3, 1979 are included in accounts payable in the Consolidated Statements of Financial Position.

NOTE J. LONG-TERM DEBT

The detail of long-term debt due beyond one year is

	February 2 1980	February 3 1979
Bank Term Loan	$ 6,250	$ 9,375
Sinking Fund Debentures	29,671	34,733
Sinking Fund Notes	52,400	18,200
Other Unsecured Notes — maturing at various dates to 1985 and bearing interest from 6% to 9½%	2,684	2,862
Mortgage Notes — notes and contracts for purchase of real estate, payable over periods ranging to 30 years from inception and bearing interest from 5½% to 7¾%	26,597	29,140
	$117,602	$ 94,310

The Bank Term Loan bears interest at a variable rate not to exceed an average of 7⅝% over the term of the loan agreement. The balance is payable in equal quarterly installments, with final maturity in fiscal 1982. The Corporation is not required to maintain compensating balances.

The Sinking Fund Debentures bear interest at 7¾% ($17,503) and 9¾% ($12,168) and are redeemable through minimum annual sinking fund payments of $1,250 each. The 5⅜% Sinking Fund Notes ($2,400) are payable $800 annually to fiscal 1982.

During 1979, the Corporation issued an additional $35,000 of its 8⅜% Sinking Fund Notes, bringing to $50,000 the total borrowing under this private placement agreement. Sinking Fund payments begin in 1983 with final maturity in 1999.

The Bank Term Loan, the 7¾% and 9¾% Sinking Fund Debentures, and the 5⅜% and 8⅜% Sinking Fund Notes each contain varying provisions and restrictions for the protection of the lenders relating to working capital, sales of receivables, dividends and other restricted payments, and other restrictive covenants. Under the most restrictive of these provisions, $377,541 of retained earnings at February 2, 1980 was available for dividends and other restricted payments.

The carrying value of land, buildings and equipment pledged as collateral to mortgage notes and contracts aggregated approximately $37,285 at February 2, 1980.

Aggregate annual principal payments on long-term debt for the next five years are: 1980 — $6,231, 1981 — $10,415, 1982 — $8,554, 1983 — $5,179, and 1984 — $5,134.

Interest (income) expense in 1979 and 1978 is net of interest income of $10,224 and $1,771, respectively.

NOTE K. COMMITMENTS AND CONTINGENCIES

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $72,789 at February 2, 1980.

The Corporation and/or its subsidiaries are contingently liable for approximately $52,110 of mortgage debt at February 2, 1980 on certain office properties sold in 1976 and the shopping centers sold in 1978. The purchasers have agreed to indemnify the Corporation and/or its subsidiaries for any costs they might incur in relation to the mortgages.

The nature and scope of the Corporation's business brings its properties, operations and representatives into regular contact with the general public and a variety of other business and governmental entities, all of which subject the Corporation to exposure to litigation arising out of the ordinary course of business. Considering the insurance which is in place for a portion of the litigation, and noting that the ultimate consequences of any particular litigation may not be presently conclusively determinable, it is the opinion of the management of the Corporation and of its legal counsel that none of the current litigation involving the Corporation or any of its subsidiaries or divisions will have a material effect on the operations or financial condition of the Corporation.

NOTE L. SHAREHOLDERS' INVESTMENT

	February 2, 1980	February 3, 1979
Preferred Stock, no par value, 200,000 shares authorized		
$5/share cumulative, 23,656 and 24,886 shares outstanding	$ 237	$ 249
$6/share cumulative, 21,625 and 21,625 shares outstanding	216	216
	453	465
Common Stock, $1 par value, 60,000,000 shares authorized 23,742,874 and 23,651,998 shares outstanding	23,743	23,652
Additional paid-in capital	60,902	58,285
Retained earnings	877,513	725,963
	$962,611	$808,365

The Cumulative Convertible Preferred Stock is redeemable at $100 per share at February 2, 1980 ($5) and June 23, 1980 ($6) and convertible into 2⅔ shares of Common Stock per share. The liquidation value is $4,528 at February 2, 1980.

NOTE M. STOCK OPTIONS

The Corporation has four stock option plans for key employees, two of which apply only to Mervyn's. Presently, new grants are made only under the 1976 Executive Long-Term Incentive Plan. This plan provides for the issuance of non-qualified stock options and/or performance shares. Options are exercisable in cumulative annual installments of 25% of the awarded shares beginning 12 months after the grant date. The options expire not later than ten years after grant. Performance shares pay cash and stock based on the attainment of selected performance goals over a four-year period.

The 1972 Dayton Hudson Stock Option Plan granted to certain eligible employees non-qualified or qualified stock options which expire between five and ten years from the date of grant. Stock appreciation rights were also granted to option holders, allowing them to surrender exercisable non-qualified options in exchange for a number of shares determined under a formula which considers the difference between the option price and the market value of the shares at the date of surrender. Because of the possible adverse impact on earnings, the Corporation has encouraged appreciation rights holders to exercise options rather than the related stock appreciation rights.

Mervyn's 1969 plan granted to certain eligible employees qualified options which expire up to five years from the grant date. A 1976 Mervyn's Tandem Option Plan awarded non-qualified stock options, stock appreciation rights, and performance units which expire up to eight years from the date of grant. A third plan, the Incentive Plan, terminated in 1979 when shares earned under the plan were issued.

The Corporation's policy is to accrue compensation expense for stock appreciation rights based on the mode of settlement it is most likely the employee will elect and for performance shares *based on the expected earnout at the end of the grant period* Expense of $200 and $667 was charged to operations in 1979 and 1978, respectively When options are exercised, the option price of the shares issued is credited to common stock and additional paid-in capital.

At February 2, 1980, outstanding non-qualified options for 182,358 shares had stock appreciation rights attached. Shares reserved for future grants at February 2, 1980 and February 3, 1979 under all stock option plans were 137,600 and 221,996, respectively Shares under option were:

	1979		1978	
	Number of Shares	Price Per Share	Number of Shares	Price Per Share
Outstanding, beginning of year	499,534	$ 7 35 - $43 19	436,038	$ 7 35 - $41.75
Granted	89,100	38 44 - 40 19	180,362	33 91 - 43 19
Cancelled	(41,421)	18 06 - 39 88	(24,361)	7 94 - 37 25
Exercised	(80,457)	7 35 - 37 25	(92,505)	7 35 - 34 81
Outstanding, end of year	466,756	$ 7.94 - $43.19	499,534	$ 7 35 - $43 19
Performance shares (exclusive of those issued in conjunction with options) outstanding at end of year	60,150			
Total	526,906			
Shares reserved for future grants	137,600			
	664,506			
Number of shares exercisable	234,027			

NOTE N. SUPPLEMENTARY INFORMATION ON CHANGING PRICES (UNAUDITED)

In an effort to produce financial information that discloses the effects of inflation, the Financial Accounting Standards Board (FASB) has issued Statement #33, "Financial Reporting and Changing Prices" The following supplemental unaudited information was prepared to illustrate the effects of changing prices on traditional measures of income and value.

The information shown is based upon the use of the Consumer Price Index for All Urban Consumers (CPI-U) to measure the effects of general inflation on our operations. The CPI-U index encompasses a wide range of commodities, such as food, housing and fuel costs Consequently, the information shown is not necessarily indicative of the specific effects of inflation on the Corporation.

CONDENSED STATEMENT OF NET EARNINGS FROM CONTINUING OPERATIONS FISCAL YEAR ENDED FEBRUARY 2, 1980

	As Reported	Adjusted for General Inflation
Revenues	$3,384,849	$3,384,849
Cost of retail sales, buying and occupancy	2,353,463	2,387,452
Selling, publicity and administrative	626,559	626,559
Depreciation and amortization	43,720	61,721
Interest and depreciation on capital leases	13,429	16,581
Other expenses	107,003	107,003
	3,144,174	3,199,316
Earnings before income taxes	240,675	185,533
Income taxes	114,205	114,205
Net earnings from continuing operations	$ 126,470	$ 71,328
Net earnings from continuing operations per share	$ 5 33	$ 3 00
Consolidated net assets at year-end	$ 962,611	$1,270,940
Net gain in purchasing power		$ 23,573

This statement presents the results of operations for 1979 using the following two methods.

As Reported

Under the last-in, first-out (LIFO) inventory method used by the Corporation, the effects of specific price changes on inventories are considered to be reflected in the financial statements as reported on pages 20-23 based upon an inflation index furnished by the Bureau of Labor Statistics (BLS). In recent years, the BLS index has increased at a rate substantially lower than the CPI-U. The impact of changing prices on assets other than inventory and on liabilities is not reflected

Adjusted for General Inflation

Under this method, cost of sales is adjusted using the CPI-U to show the effect of general inflation on inventories. Also, depreciation expense is adjusted to reflect the restatement of fixed assets and leased property into average 1979 dollars using the change in the CPI-U since the date the related fixed assets were acquired, or the capital leases were entered into Revenues and other costs and expenses are considered to approximate average 1979 dollars and, therefore, remain unchanged from the amounts presented in the financial statements.

The provision for income taxes is the same as that in the financial statements. Federal and state income tax laws do not allow adjustments to the cost of sales or the depreciation expense for the effect of general inflation as determined here As a result, the Corporation incurs income taxes at a rate of 61.6% in terms of 1979 dollars measured by use of the CPI-U, significantly in excess of its effective rate of 47 5% shown in the financial statements If the effective 47.5% rate is applied to earnings before income taxes adjusted for general inflation, the resulting net earnings would be $97,405 or $4.10 per share

The "net gain in purchasing power," shown separately above, represents a benefit to the Corporation resulting from having net outstanding debt which it is assumed will be repaid in dollars of less value. The amount is calculated using the Corporation's average net monetary liabilities for 1979, which consists primarily of the net of accounts receivable, current liabilities and long-term debt, multiplied by the change in the CPI-U in 1979. Monetary assets and liabilities are those which are or will be converted into a fixed number of dollars regardless of the effects of general inflation. This amount does not represent funds available for distribution to shareholders or income as it is presently defined in the financial statements.

COMPARISON OF SELECTED FINANCIAL DATA RESTATED TO AVERAGE 1979 DOLLARS

	Fiscal Year Ended				
	Feb 2, 1980	Feb 3, 1979	Jan 28, 1978	Jan 29, 1977	Jan 31, 1976
Revenues	$3,384,849	$3,306,359	$3,004,605	$2,729,266	$2,511,477
Cash dividends paid per common share	1.65	1.62	1.51	1.23	.89
Market price per common share at year-end	43	42	44	43	45
Average CPI-U	219.8	196.9	182.5	171.2	162.1

This schedule presents certain financial information for 1979 and the four prior years restated into average 1979 dollars using the CPI-U. The Corporation's revenues, net earnings, net assets and dividends paid per share over the past five years have grown at a rate greater than the increase in general inflation. The market price of the Corporation's common shares has not increased as fast as general inflation measured by the CPI-U.

Estimated Replacement Cost Information

Dayton Hudson's annual report Form 10-K contains quantitative information with respect to estimated replacement cost of inventories and property and equipment at February 2, 1980 and February 3, 1979, and the estimated effect of such costs on cost of sales and depreciation expense for the years then ended.

NOTE O. PENSION AND SAVINGS AND STOCK PURCHASE PLANS

Contributions to the Corporation's four defined benefit pension plans for the years ended February 2, 1980 and February 3, 1979 were $11,577 and $10,201, respectively. The plans' combined assets and liabilities were:

	December 31	
	1979	1978
ASSETS		
Contribution receivable	$ 922	$ —
Insurance contracts	11,980	11,463
Fixed income securities	31,109	28,165
Equity securities	69,702	54,508
Total Assets at Market (cost 1979, $108,803, 1978, $95,291)	$113,713	$ 94,136
LIABILITIES AND EXCESS OF ASSETS OVER BENEFITS		
Vested benefits	$118,246	$109,496
Accrued benefits not vested	7,403	6,147
Unfunded liability of one plan (two plans in 1978)	(14,482)	(23,043)
Excess of assets over benefits of three plans (two plans in 1978)	2,546	1,536
Total Liabilities and Excess of Assets Over Benefits	$113,713	$ 94,136

Contributions to the Savings and Stock Purchase Plan by the Corporation for the years ended February 2, 1980 and February 3, 1979 were $2,880 and $2,718, respectively. The condensed assets, liabilities and equity of the plan were

	December 31	
	1979	1978
ASSETS		
Investments at market value		
Dayton Hudson Stock Fund	$ 13,972	$ 11,281
Fixed Income Fund	20,112	15,860
Equity Fund	31,797	28,008
Total Assets	$ 65,881	$ 55,149
LIABILITIES AND EQUITY		
Funds payable for securities and plan withdrawals	$ 850	$ 1,049
Plan equity	65,031	54,100
Total Liabilities and Equity	$ 65,881	$ 55,149

NOTE P. INCOME TAXES

The components of the provision for income taxes are:

	1979			1978		
	Total	Federal	State	Total	Federal	State
Current	$102,737	$84,388	$18,349	$ 96,381	$79,003	$17,378
Deferred	11,468	10,451	1,017	4,880	4,764	116
Total	$114,205	$94,839	$19,366	$101,261	$83,767	$17,494

Deferred income taxes are provided for income and expenses which are recognized in different accounting periods for financial reporting than for income tax purposes. A description of the timing differences and the related deferred taxes are:

	1979	1978
Excess of tax over book depreciation	$ 5,870	$ 1,556
Deferred income on installment sales	10,253	12,072
Lease capitalization	(755)	(904)
Writedown of assets	(2,697)	(5,880)
Other	(1,203)	(1,964)
Provision for deferred taxes	$11,468	$ 4,880

The detail of income taxes in the Consolidated Statements of Financial Position is:

	February 2, 1980	February 3, 1979
Income taxes currently payable	$ 66,454	$ 62,618
Deferred income taxes — installment sales	90,460	79,533
	$156,914	$142,151

Based on the Corporation's anticipated future operations and expenditures and current income tax policies, no substantial reduction in the deferred income tax balance is anticipated in the succeeding three years.

NOTE Q. QUARTERLY REVIEW (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for 1979 and 1978.

(Millions of dollars, except per share data)

	Quarter				
	First	Second	Third	Fourth	Total Year
1979					
Revenues	$656 8	$742 5	$822 4	$1,163.1	$3,384 8
Gross Profit (1)	$199 6	$214 7	$253 8	$ 363 3	$1,031.4
Net Earnings (Loss) (2)					
Continuing	$ 14 4	$ 17 6	$ 29 9	$ 64 6	$ 126 5
Discontinued	5 2	26 9	(5)	34 0	65 6
Consolidated	$ 19 6	$ 44 5	$ 29 4	$ 98 6	$ 192 1
Earnings (Loss) Per Share					
Continuing	$ 61	$ .74	$ 1 25	$ 2 73	$ 5 33
Discontinued	22	1 14	(02)	1 43	2.77
Consolidated	$ 83	$ 1.88	$ 1 23	$ 4 16	$ 8 10
1978					
Revenues	$567 0	$650 6	$703 7	$1,040 6	$2,961 9
Gross Profit (1)	$170 4	$186 6	$217 5	$ 332 0	$ 906.5
Net Earnings (2)					
Continuing	$ 11 2	$ 3 3	$ 22 6	$ 60 5	$ 97.6
Discontinued	9	152 6	1.7	12 1	167 3
Consolidated	$ 12 1	$155 9	$ 24 3	$ 72 6	$ 264 9
Earnings Per Share					
Continuing	$ 47	$ 13	$ 96	$ 2 56	$ 4 12
Discontinued	04	6 47	.07	51	7 09
Consolidated	$ 51	$ 6 60	$ 1 03	$ 3 07	$ 11.21

(1) Revenues less cost of retail sales, buying and occupancy

(2) Includes impact of unusual expenses and property sales (see Notes B and C)

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 2, 1980 and February 3, 1979, and the related statements of results of operations, shareholders' investment and changes in financial position for the years then ended. We have also examined the Ten-Year Comparisons and the segment information included in the Five-Year Segment-of-Business Comparisons on pages 31-33. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Dayton Hudson Corporation and subsidiaries at February 2, 1980 and February 3, 1979, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the Ten-Year Comparisons and the segment information included in the Five-Year Segment-of-Business Comparisons fairly present the information set forth therein.

Ernst & Whinney

Minneapolis, Minnesota
March 21, 1980

Responsibility for Financial Statements

The accompanying financial statements have been prepared by the Management of Dayton Hudson Corporation in conformity with generally accepted accounting principles. Management is responsible for their manner of presentation and integrity, and their consistency with other information contained in our Annual Report. To discharge this responsibility, we have developed a comprehensive system of internal controls and instituted organizational arrangements, each of long standing, designed to ensure that the statements and other information in this report present a fair and accurate financial picture of the Corporation.

Our system of internal controls is designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition and that financial records are reliable for preparing financial statements and other data. The concept of reasonable assurance is based upon a recognition that there are inherent limitations in any system of internal controls because the cost of the controls should not exceed the benefit derived. After judging these cost and benefit factors, we believe the Corporation's system of internal controls provides this reasonable assurance.

To ensure the ongoing effectiveness of our system of internal controls, we make a conscious effort to employ the most qualified people, provide comprehensive written guidelines regarding procedural and ethical matters, and conduct effective training programs. In addition, we provide an environment which encourages free and open communication at all levels of our organization.

The role of our independent auditors, Ernst & Whinney, is to examine the financial statements of the Corporation and render an independent opinion as to their conformity with accounting principles which are generally accepted and applied consistently.

The Corporation's Audit Committee is made up of members of the Board of Directors (noted on page 36) who are not officers or employees of Dayton Hudson. The Audit Committee meets with Dayton Hudson Management, our independent auditors, Ernst & Whinney, and our internal auditors to review, appraise and report to the Board of Directors on accounting and reporting practices, the internal controls system, and the audit effort of both independent auditors and internal auditors. Both Ernst & Whinney and our internal auditors have full and free access to meet with the Audit Committee, with or without the presence of Management, and do so regularly, to discuss the results of their examinations and their opinions on the adequacy of our internal controls and the quality of our financial reporting.

William A. Andres
Chairman of the Board and Chief Executive Officer

Richard L. Schall
Vice Chairman and Chief Administrative Officer

Willard C. Shull, III
Senior Vice President, Finance

Michael M. Pharr
Vice President and Controller

Five-Year Segment-of-Business Comparisons

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)

	1979	1978	1977	1976	1975
Revenues					
Department	$1,173.8	$1,172.3	$1,053.3	$ 952.3	$ 888.7
Low-margin	1,297.4	1,055.1	858.8	725.2	616.2
Specialty	257.7	255.0	213.6	180.3	149.3
Mervyn's	655.9	479.5	369.0	268.0	198.0
Total	$3,384.8	$2,961.9	$2,494.7	$2,125.8	$1,852.2
Operating Profit (a)					
Department	$ 103.0	$ 115.3	$ 104.1	$ 94.4	$ 83.2
Low-margin	74.8	71.7	54.9	48.3	39.9
Specialty	21.7	20.2	19.1	12.8	9.8
Mervyn's	68.6	44.5	37.4	24.2	21.1
Total	268.1	251.7	215.5	179.7	154.0
Corporate expense	22.0	18.8	13.2	12.5	14.6
Interest (income) expense	(1.1)	8.2	9.9	8.9	9.0
Interest expense on capital leases	6.5	6.0	5.2	4.4	4.1
Earnings before unusual expenses and income taxes	240.7	218.7	187.2	153.9	126.3
Unusual expenses (b)	—	19.8	—	—	—
Earnings before income taxes	240.7	198.9	187.2	153.9	126.3
Income taxes	114.2	101.3	95.5	79.4	65.6
Net earnings from continuing operations	126.5	97.6	91.7	74.5	60.7
Net earnings (loss) from discontinued operations	65.6	167.3	6.2	2.5	(.1)
Net earnings	$ 192.1	$ 264.9	$ 97.9	$ 77.0	$ 60.6
Identifiable Assets at Year-End					
Department	$ 686.1	$ 683.6	$ 626.4	$ 543.7	$ 489.7
Low-margin	529.4	412.4	327.6	265.0	232.1
Specialty	119.9	104.7	85.1	70.8	62.0
Mervyn's	322.8	218.4	155.2	116.6	82.1
Corporate	93.7	66.2	51.6	70.2	54.0
	1,751.9	1,485.3	1,245.9	1,066.3	919.9
Discontinued operations	80.9	152.2	165.5	146.8	163.3
Total	$1,832.8	$1,637.5	$1,411.4	$1,213.1	$1,083.2
Depreciation and Amortization Expense					
Department	$ 22.3	$ 20.7	$ 19.7	$ 17.7	$ 16.1
Low-margin	15.3	11.0	9.7	8.1	7.5
Specialty	4.3	3.4	2.9	2.5	2.1
Mervyn's	8.4	4.9	3.8	2.6	2.0
Corporate	.4	.4	.3	.2	.2
	50.7	40.4	36.4	31.1	27.9
Less amortization on capital leases	7.0	6.0	5.2	4.3	3.7
Total	$ 43.7	$ 34.4	$ 31.2	$ 26.8	$ 24.2
Capital Expenditures					
Department	$ 46.1	$ 48.8	$ 43.4	$ 38.9	$ 19.2
Low-margin	107.0	63.7	43.6	23.7	6.3
Specialty	18.4	9.0	5.1	4.8	4.7
Mervyn's	46.4	34.5	10.5	8.7	3.1
Corporate	.3	.1	2.3	—	.1
	218.2	156.1	104.9	76.1	33.4
Less expenditures on capital leases	6.9	20.0	10.0	9.8	2.0
Total	$ 211.3	$ 136.1	$ 94.9	$ 66.3	$ 31.4
OTHER INFORMATION					
Operating Profit as a Percent of Revenues					
Department	8.8%	9.8%	9.9%	9.9%	9.4%
Low-margin	5.8	6.8	6.4	6.7	6.5
Specialty	8.4	7.9	8.9	7.1	6.6
Mervyn's	10.5	9.3	10.1	9.0	10.7
Number of Stores					
Department	45	51	46	44	41
Low-margin	86	73	64	56	52
Specialty	470	413	364	313	273
Mervyn's	60	51	42	35	26
Retail Square Feet (Thousands)					
Department	10,210	10,799	10,126	9,690	9,210
Low-margin	9,189	7,909	6,999	6,185	5,865
Specialty	1,744	1,548	1,346	1,182	1,047
Mervyn's	4,638	3,902	3,154	2,566	1,855
Start-up Costs (Millions)					
Department	$ 4.9	$ 7.8	$ 6.7	$ 6.7	$ 2.8
Low-margin	8.7	6.3	5.5	3.3	1.3
Specialty	2.2	2.7	1.2	1.1	1.0
Mervyn's	3.9	2.2	1.1	1.4	.3
Total	$ 19.7	$ 19.0	$ 14.5	$ 12.5	$ 5.4

Dayton Hudson Corporation operates a retail business consisting of four segments – department stores, low-margin stores, specialty stores and Mervyn's. See pages 4-14 for discussion.

Revenues are principally from unaffiliated customers. Intersegment revenues are immaterial.

Identifiable assets by industry segment are those assets that are used in the operations of each segment. Corporate assets consist primarily of cash and short-term investments.

(a) Operating profit includes all revenue and expense items other than corporate expense, interest expense, unusual expenses, income taxes and discontinued operations.

(b) Unusual expenses in 1978 include merger fees as a result of the business combination with Mervyn's, a provision for loss on the planned closing of Hudson's downtown store and costs provided for the disposition of certain retail operations.

Ten-Year Comparisons

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per Share Data)

REVENUES
Cost of retail sales, buying and occupancy
Interest (income) expense
Depreciation and amortization
Interest and depreciation on capital leases
EARNINGS BEFORE INCOME TAXES
INCOME TAXES
NET EARNINGS (LOSS)
Continuing
Discontinued
Consolidated
PER COMMON SHARE
Net earnings
Continuing
Discontinued
Consolidated
Cash dividend[b]
Shareholders' investment
RETURN ON BEGINNING SHAREHOLDERS' INVESTMENT
CAPITAL EXPENDITURES
CONSOLIDATED YEAR-END FINANCIAL POSITION
Working capital
Property and equipment
Leased property under capital leases
Non-current assets of discontinued segment
Long-term capital lease obligations
Long-term debt
Long-term liabilities of discontinued segment
Shareholders' investment
AVERAGE COMMON SHARES OUTSTANDING (Thousands)

The Ten-Year Comparisons should be read in conjunction with the Financial Review and Financial Statements

(a) Earnings data for 1972 include extraordinary expense (as defined in 1972) of $0.7 million ($.04 per share).

(b) Dividends per common share are based on the historical number of average shares of the Corporation's Common Stock outstanding during the respective periods

(c) Consisted of 53 weeks

1979	1978[c]	1977	1976	1975	1974	1973	1972[a,c]	1971	1970
$3,384.8	2,961.9	2,494.7	2,125.8	1,852 2	1,609.3	1,461 7	1,325.2	1,135 7	984.0
$2.353 4	2,055 4	1,731 6	1,480 1	1,285 2	1,148.1	1,043.8	955.1	813.4	707.4
$ (1.1)	8.2	9.9	8 9	9.0	14.7	13.5	13.2	12 7	12 4
$ 43.7	34.4	31.2	26.8	24.2	22.9	21.0	19.9	18 0	16 1
$ 13.4	12 0	10.4	8.7	7.8	6.7	5.2	4.5	2.8	2 5
$ 240.7	198.9	187.2	153.9	126.3	59 6	55.6	52.7	44 9	38 3
$ 114.2	101.3	95 5	79.4	65 6	29.6	27.5	26.2	21 0	19 9
$ 126.5	97 6	91.7	74.5	60.7	30.0	28.1	26.5	23 9	18 4
$ 65.6	167.3	6.2	2.5	(.1)	(.4)	2.1	2.9	2 0	1 5
$ 192.1	264.9	97.9	77.0	60 6	29.6	30.2	29.4	25.9	19 9
$ 5 33	4.12	3 89	3 18	2 63	1.31	1.24	1.17	1 08	87
$ 2.77	7.09	.27	.11	—	(.01)	.09	.13	09	07
$ 8.10	11.21	4.16	3.29	2.63	1.30	1.33	1.30	1 17	94
$ 1.65	1.45	1.25	.96	.66	.585	.54	.52	.50	.50
$ 40 35	33.98	24 40	21.12	18.51	16.58	15.70	14.78	13.98	13.79
23.8%	45.7	19.6	17.7	16.0	8.3	8.9	9.3	8 8	7.3
$ 218.2	156.1	104.9	76.1	33.4	48.7	40.0	43 7	31.5	44 5
$ 438.8	427.6	309.4	288 2	266.2	239.2	246.5	241.0	185.9	166 7
$ 629.8	472.2	379.7	317.2	280.0	274.3	260.6	249.3	244.4	235.0
$ 67.2	70 9	57.0	52.2	46.7	48.4	41.1	37.7	23.3	20.3
$ 36.2	48.2	150.0	136.7	146.4	145.7	133.9	117.4	116 1	118.5
$ 73.0	76.8	62.0	56 6	50.6	51.5	43.9	40.0	25 2	21.8
$ 117.6	94.3	116.8	111.7	123.8	147.2	164 0	176.4	153.0	150.0
$ 14.0	36 4	136.5	125.4	124.8	123.9	111.1	87.7	78.8	79.1
$ 962.6	808 4	579.8	499 2	435 9	378.6	358.5	339.7	316.1	293.5
23,691	23,597	23,500	23,325	22,947	22,469	22,466	22,428	21,839	20,826

At the close of 1979, Dayton Hudson Corporation was operating 661 stores in 44 states, the District of Columbia and Puerto Rico.

Department Stores

▪ Hudson's ▪ Dayton's
▪ Diamonds ▪ John A. Brown

The department store group consists of four operating companies: *Hudson's* in Michigan and Ohio; *Dayton's* in Minnesota, North Dakota and South Dakota; *Diamonds* in Arizona and Nevada; and *John A. Brown* in Oklahoma.

Low-Margin Stores

▪ Target ▪ Lechmere

The low-margin group comprises *Target*, a low-margin department store chain operating in 11 midwestern and southwestern states, and *Lechmere*, a New England hardlines retailer with particular strength in major appliances. Both operate high-volume, low-expense stores featuring dominant selections of national-brand merchandise.

Specialty Stores

▪ B Dalton Bookseller
▪ Dayton Hudson Jewelers

The specialty store group is composed of two multi-store companies: *B. Dalton Bookseller*, a national bookstore chain, and *Dayton Hudson Jewelers*, a group of six regional fine-jewelry retailers.

Mervyn's

Mervyn's is a softlines retail company with stores in California, Arizona, New Mexico, Nevada and Oregon. Mervyn's stores feature a popularly priced balance of nationally branded and private-label apparel, accessories and household softgoods.

DEPARTMENT STORES	No. of Stores	Retail Sq Ft * (000)
Hudson's		
Detroit, Mich.	9	4,285
Pontiac, Mich.	1	289
Flint, Mich.	1	268
Toledo, Ohio	1	187
Ann Arbor, Mich.	1	187
Grand Rapids, Mich.	1	122
Saginaw, Mich.	1	122
Lansing, Mich.	1	103
	16	5,563
Dayton's		
Minneapolis-St. Paul, Minn.		
Department Stores	7	2,297
Home Stores	3	178
Rochester, Minn.	1	155
St. Cloud, Minn.	1	102
Fargo, N.D.	1	115
Grand Forks, N.D	1	100
Sioux Falls, S.D.	1	100
	15	3,047
Diamonds		
Phoenix, Ariz.	6	848
Tucson, Ariz.	1	98
Las Vegas, Nev.	2	166
	9	1,112
John A. Brown		
Oklahoma City, Okla.	3	287
Tulsa, Okla.	2	201
	5	488
Total Department Stores	45	10,210

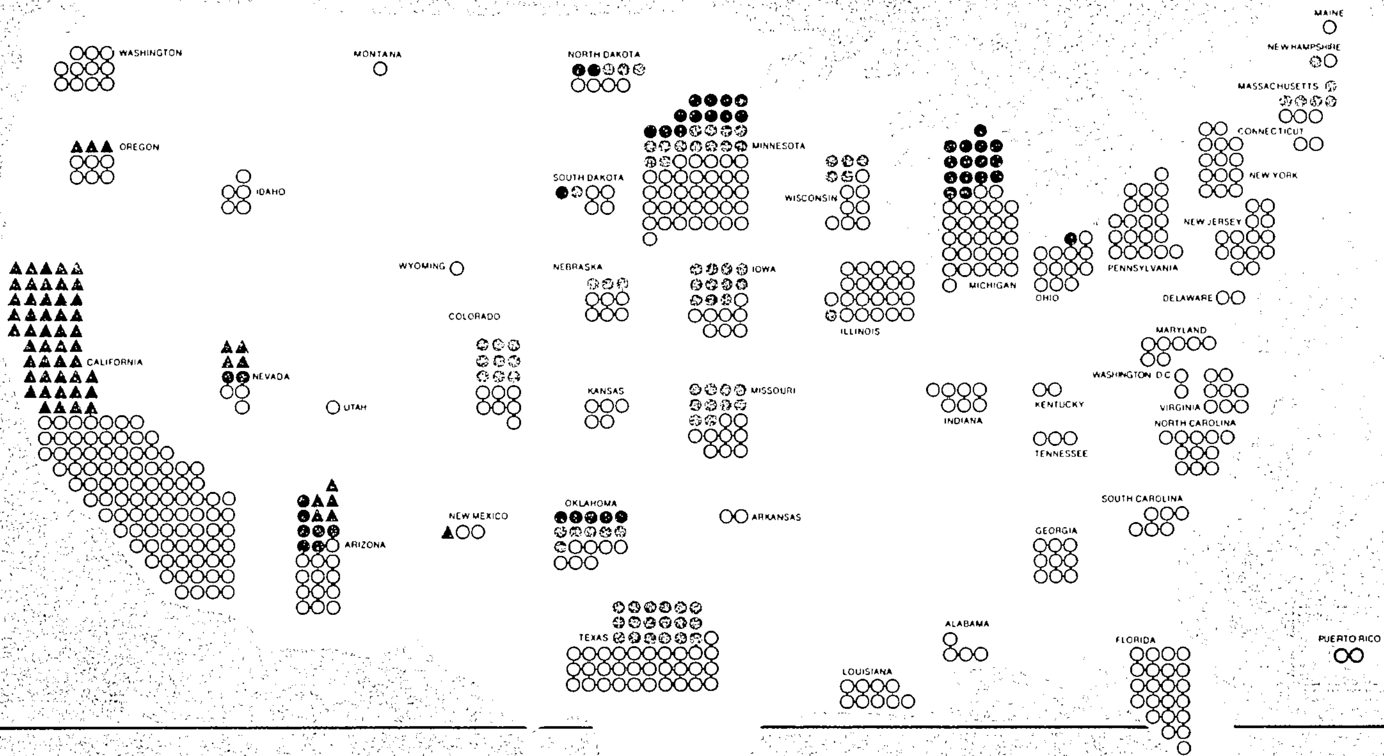
LOW-MARGIN STORES	No. of Stores	Retail Sq. Ft * (000)
Target		
Minneapolis-St. Paul, Minn.	12	1,298
Duluth, Minn.	1	96
Dallas-Ft. Worth, Texas	9	1,004
Houston, Texas	9	985
St. Louis, Mo.	10	1,090
Denver, Colo.	7	714
Colorado Springs, Colo.	1	130
Oklahoma City, Okla.	4	391
Tulsa, Okla.	2	226
Milwaukee, Wis.	5	552
Omaha, Neb.	3	310
Des Moines, Iowa	3	315
Ames, Iowa	1	45
Bettendorf, Iowa	1	80
Cedar Rapids, Iowa	2	180
Clinton, Iowa	1	60
Fort Dodge, Iowa	1	61
Mason City, Iowa	1	50
Ottumwa, Iowa	1	50
Moline, Ill.	1	80
Grand Forks, N.D.	1	100
Fargo, N.D	1	100
Bismarck, N D.	1	80
Sioux Falls, S.D.	1	100
Ft Collins, Colo.	1	100
	80	8,197
Lechmere		
Boston, Mass.	4	751
Springfield, Mass.	1	159
Manchester, N H	1	82
	6	992
Total Low-Margin Stores	86	9,189

*Retail square feet is total square feet less office, warehouse and vacant space

SPECIALTY STORES	No of Stores	Retail Sq. Ft.* (000)
B. Dalton Bookseller		
Northeast	56	251
Southeast	74	248
Midwest	115	391
South Central	54	192
Northwest	23	72
Southwest	96	390
Puerto Rico	2	6
	420	1,550
Dayton Hudson Jewelers		
J. E. Caldwell		
Philadelphia, Pa.	3	21
Harrisburg, Pa.	1	5
Moorestown, N J.	1	4
Wilmington, Del	1	2
Newark, Del.	1	2
Washington, D.C.	1	6
Gaithersburg, Md	1	2
Bethesda, Md	1	3
	10	45
J. B. Hudson		
Minneapolis-St. Paul, Minn.	7	27
Rochester, Minn	1	2
Omaha, Neb	1	5
	9	34
J. Jessop & Sons		
San Diego, Calif.	8	27
C. D. Peacock		
Chicago, Ill.	7	37
Shreve's		
San Francisco, Calif	7	28
C. W. Warren		
Detroit, Mich.	9	23
Total Jewelry Stores	50	194
Total Specialty Stores	470	1,744

MERVYN'S	No. of Stores	Retail Sq. Ft * (000)
San Francisco Bay Area, Calif.	14	1,045
Los Angeles, Calif.	10	784
San Jose, Calif.	6	499
Sacramento, Calif.	3	202
San Diego, Calif.	2	163
Reno-Sparks, Nev	2	127
Phoenix, Ariz.	5	416
Modesto, Calif.	1	62
Merced, Calif.	1	60
Visalia, Calif.	1	60
Salinas, Calif.	1	60
Chico, Calif.	1	60
Santa Rosa, Calif.	1	53
Bakersfield, Calif	1	100
Fresno, Calif.	1	105
Stockton, Calif.	1	81
Marysville, Calif	1	66
Capitola, Calif.	1	75
Lodi, Calif.	1	68
Las Vegas, Nev.	2	161
Albuquerque, N.M.	1	114
Portland, Ore.	3	277
Total Mervyn's Stores	60	4,638

Total Retail	661	25,781



Department Stores

Low-Margin Stores

Specialty Stores

Mervyn's

Directors and Management

Dayton Hudson Corporation and Subsidiaries

DIRECTORS

William A. Andres, *Chairman of the Board* [b]

Bruce B. Dayton, *Chairman, Finance Committee* [b]

K. N. Dayton, *Chairman, Executive Committee* [b]

Donald J. Hall, *President and Chief Executive Officer, Hallmark Cards, Inc. (greeting card manufacturer)* [a][b]

Joseph L. Hudson, Jr., *Chairman of Hudson's*

Stephen F. Keating, *Vice Chairman of the Board, Honeywell Inc. (automation equipment manufacturer)* [a][b]

Howard H. Kehrl, *Executive Vice President, General Motors Corporation (manufacturer of transportation equipment)* [b]

*Kenneth A. Macke, *Chairman of Target*

Bruce K. MacLaury, *President, The Brookings Institution (research and planning organization)* [b]

David T. McLaughlin, *Chairman of the Board and Chief Executive Officer, The Toro Company (yard care equipment manufacturer)* [a][b]

Mervin G. Morris, *Chairman Emeritus of Mervyn's* [b]

Stephen L. Pistner, *President*

Richard L. Schall, *Vice Chairman*

William H. Spoor, *Chairman of the Board and Chief Executive Officer, The Pillsbury Company (diversified food producer)* [a][b]

Paul N. Ylvisaker, *Dean of the Graduate School of Education, Harvard University* [b]

Shirley Young, *Executive Vice President, Grey Advertising, Inc. (advertising agency)* [a][b]

(a) Audit Committee
(b) Executive Committee
*Elected August 1979

OFFICERS

William A. Andres, *Chairman and Chief Executive Officer*

Stephen L. Pistner, *President and Chief Operating Officer*

Richard L. Schall, *Vice Chairman and Chief Administrative Officer*

K. N. Dayton, *Chairman, Executive Committee*

Joseph L. Hudson, Jr., *Senior Vice President*

John F. Kilmartin, *Senior Vice President*

Kenneth A. Macke, *Senior Vice President*

P. Gerald Mills, *Senior Vice President*

Albert B. Perlin, *Senior Vice President and Secretary*

C. George Scala, *Senior Vice President*

Willard C. Shull III, *Senior Vice President*

Wayne E. Thompson, *Senior Vice President*

Peter Corcoran, *Vice President*

Harry N. Jackson, *Vice President*

Allan L. Pennington, *Vice President*

Michael M. Pharr, *Vice President*

Karol D. Emmerich, *Treasurer*

Conley Brooks, Jr., *Assistant Treasurer*

William E. Harder, *Assistant Secretary*

William P. Hise, *Assistant Secretary*

OPERATING COMPANY MANAGEMENT

DEPARTMENT STORES

Hudson's

Joseph L. Hudson, Jr., *Chairman and Chief Executive Officer*

Theodore A. Bintz, *President*

Dayton's

P. Gerald Mills, *President and Chief Executive Officer*

Diamonds

Arthur F. (Jim) Baumann, *Chairman and Chief Executive Officer*

John A. Brown

James W. Sherburne, Jr., *President and Chief Executive Officer*

LOW-MARGIN STORES

Target

Kenneth A. Macke, *Chairman and Chief Executive Officer*

Bruce G. Allbright, *President*

Lechmere

David Banker, *President and Chief Executive Officer*

SPECIALTY STORES

B. Dalton Bookseller

Floyd Hall, *President and Chief Executive Officer*

Dayton Hudson Jewelers

Sherman A. Swenson, *President and Chief Executive Officer*

MERVYN'S

John F. Kilmartin, *Chairman and Chief Executive Officer*

Wallace Kalina, *President and Chief Operating Officer*

Dayton Hudson Corporation

CORPORATE INFORMATION

CORPORATE OFFICES

777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone: (612) 370-6948

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 10 a.m. Wednesday, May 28, 1980, in the eighth-floor auditorium of Dayton's Department Store, 700 Nicollet Mall, Minneapolis, Minnesota.

10-K REPORT

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 2, 1980 is available at no charge to shareholders. Write to: Director, Financial Relations.

SHAREHOLDER INVESTMENT SERVICE

The Shareholder Investment Service is a cost-free way for Dayton Hudson Corporation shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment and voluntary cash purchase. All holders of Dayton Hudson common stock may participate. For more information, write Director, Financial Relations.

TRANSFER AGENTS AND REGISTRARS

Common Stock, $5 and $6 Preferred Stock
- Northwestern National Bank of Minneapolis
- The Northwestern Trust Company, New York City

DIVIDEND AGENT

Common Stock, $5 and $6 Preferred Stock
- Northwestern National Bank of Minneapolis

TRUSTEES

7¾% Sinking Fund Debentures, Due 1994
- First National Bank of St. Paul

9¾% Sinking Fund Debentures, Due 1995
- First Trust Company of St. Paul

STOCK EXCHANGE LISTINGS

New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol: DH)

SHAREHOLDER ASSISTANCE

For assistance regarding individual stock records and transactions, contact:

Shareholder Relations
Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone: (612) 370-6735


Our Bet
TARGET